12 Meeting demand for urban space

Key points

- Under our devolved regulatory framework for land use regulation, councils are responsible for land-use decisions, including providing space to meet demand for residential dwellings.

- New Zealand councils have a clear idea about how they want their cities to develop in the future, and how they intend to meet a growing population’s demand for housing. For our larger cities, this includes pursuing compact urban forms that are considered desirable for a range of reasons. But some councils have difficulty in giving effect to those broad strategies through land use rules. The central problem is failing to confront the trade-offs between the interests of existing residents and the decisions about land use rules that will be required to accommodate new residents.

- Our largest urban councils are responding to the challenge of delivering on compact city forms by establishing local urban development authorities (UDAs) to redevelop existing urban areas of the city. Auckland and Christchurch have such vehicles, and Wellington is in the process of establishing one.

- UDAs offer significant potential to redevelop sites to deliver large numbers of new dwellings. They can also take advantage of economies of scale to generate efficiencies, and foster a larger, more efficient and more capable construction industry.

- Government should pursue a range of opportunities to support local UDAs. This includes providing for streamlined planning processes, and granting them powers of compulsory acquisition, within certain areas that are designated for redevelopment.

- Where councils are unable to confront the trade-offs necessary to provide sufficient residential space to meet growing demand, a range of negative social and economic consequences result. Central government bears many of the consequences of this failure.

- One measure of how effectively demand is being met is through relative land prices. Where large discontinuities emerge between the price of land that can be developed for housing and land that cannot be developed, this is indicative of the inadequacy of development capacity being supplied within the city.

- Government should take steps to ensure that where councils are unable to provide sufficient residential space to meet demand, additional ready-to-build land is made available to help the market provide the housing demanded by a growing population.

- Government should establish a process to monitor the relative price of developable and non-developable land. It should also establish a threshold of this price differential, beyond which it will take steps to ensure additional greenfield land will be released.

- This will assist councils in confronting the trade-offs necessary to accommodate demand for residential space. A commitment to increasing supply to meet demand will also change the incentives facing owners who are currently holding undeveloped land in expectation of future price increases, by removing expectations of ongoing land price inflation.
### 12.1 Introduction

The Commission has identified a number of problems inhibiting the supply of land for housing, and recommended a range of actions to improve supply (Figure 12.1).

#### Figure 12.1  Key problems and recommendations from earlier chapters

<table>
<thead>
<tr>
<th>Key problems</th>
<th>Underlying causes</th>
<th>Recommendations</th>
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<td>Misaligned incentives on a range of actors</td>
<td>NIMBYs</td>
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<td>Owners withholding land from development</td>
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<td>Rationing of infrastructure connections</td>
<td>Restrict notification</td>
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<tr>
<td>Insufficiently responsive infrastructure provision</td>
<td>Rationing of infrastructure connections</td>
<td>Better information and asset management</td>
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<td></td>
<td>Reluctance to use range of funding tools</td>
<td>Better pricing and cost-recovery</td>
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<td></td>
<td>Underinvestment</td>
<td>Better governance and performance benchmarking</td>
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<td>Slow, prescriptive planning that misses important priorities</td>
<td>Lack of responsiveness</td>
<td>Improvements to the existing planning system</td>
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<td></td>
<td>Lack of integrated planning</td>
<td>A deeper review of the planning framework</td>
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<td></td>
<td>Little recognition of national interest</td>
<td>More central government guidance</td>
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<td></td>
<td>Little recognition of the needs of cities or housing</td>
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<td></td>
<td>Scope creep</td>
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</table>

This report has identified a ‘wedge’ between local and national interests about the costs and benefits of growth in the areas of New Zealand experiencing the greatest housing demand. This mismatch of interests is exacerbated by local political processes and by mismanagement of the costs of growth. There are many opportunities to improve land use regulation in cities facing the greatest demand for housing. But without clearer central government expectations about the importance of meeting demand for urban space, and support in achieving this, it may be difficult to generate the changes in behaviour necessary to realise the full value of these improvements.

### The role of local government in land use regulation

New Zealand’s approach to local government and land use regulation is highly devolved (Chapter 2) and, as demonstrated in Chapter 3, is highly responsive to local democratic considerations (or at least that subset of the population that participates in local democratic processes). Many submitters were eager to emphasise the high value they placed on these arrangements:

As householders are ratepayers they will be the ones who have to pay for Council decisions (now and in the future) and therefore legislation should be promoting more not less community engagement in decision making. (Jonathan Barrett, sub. DR82, p. 1)

Many of the report’s findings and recommendations appear to show a preference for an increased top-down approach to land use and development planning, which is of concern. Ministerial involvement in planning decisions could undermine local democracy and weaken the principle of subsidiarity that underpins the local government role. (Porirua City Council, sub. DR88, p. 2)

Plan making at a local level is important as it takes into account issues of relevance to the local community and can look holistically at issues … (Hamilton City Council, sub. DR114, p. 12; Waipa District Council, sub. DR134, p. 9)
Fundamentally, it should be the role of the local council to address issues in consultation with their local community. (Hamilton City Council, sub. DR114, p. 12)

Giving enhanced power to central government to intervene in local democratic and planning processes is not a fair nor sustainable option. (Public Service Association, sub. DR121, p. 4)

The Commission agrees that, in principle, local government should control the way in which a community develops, including its physical form. But local democratic processes are dominated by interests that are stacked against accommodating growth. Land use regulation in New Zealand should take place in a way that recognises local preferences through democratic processes and seeks to confront local trade-offs. But local government should not be able to ignore growth and fail to plan sufficient capacity for it. Where local government does not respond adequately to demand, then serious local and national harms can result that are both social and economic in nature.

Section 3.6 of this report discusses the range of outcomes that result from the current housing situation:

- decline in home ownership rates;
- New Zealanders devoting increasing shares of their income to housing, with associated impacts on wellbeing;
- a more uneven distribution of national wealth;
- ongoing overcrowding in Auckland, with associated health and social costs;
- a greater risk of economic volatility and macroeconomic instability;
- barriers to labour market mobility;
- an undermining of the effectiveness of monetary policy to manage economy-wide inflation; and
- pressure on fiscal policy, through direct and indirect paths. 54

These are significant risks and missed opportunities. The scale of the shortage of land for housing in some places, and especially in Auckland, and the difficulties in getting change, indicate a need for bigger steps.

There is clear evidence of a disconnect between the aspirations of some councils as expressed in high level documents, and the detailed land use rules that are designed to give effect to those strategies. This disconnect emerges because of a failure to confront the trade-offs that have been central themes of this inquiry: between the wealth and amenity of existing homeowners and the need of new households for affordable access to quality housing.

Central government should seek to enable and be supportive of local councils in delivering on their aspirations for the future of their cities. But it should also set expectations that ensure sufficient ready-to-build land is available for the market to deliver a sufficient range of dwellings of a type demanded by households. In the Commission’s view, both strategies are necessary to ensure a sufficient capacity of land for housing is delivered in a timely manner. This chapter sets out a strategy to meet demand for urban space, by supporting cities to successfully achieve their desired urban form, but providing a backstop to ensure development capacity is always adequate to meet demand for new housing.

### 12.2 The aspirations of New Zealand cities

New Zealand councils generally have clear strategies for how they envisage growth occurring:

Waikato District Council promotes planned growth and is not under pressure to make land available for housing. Council’s growth planning is done in accordance with the sustainable management of natural and physical resources. Council focusses urban forms of residential, industrial and commercial development primarily into towns and villages with rural residential development occurring in Country Living Zones. (Waikato District Council, sub. 12, p. 10)

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54 For example, through accommodation supplements and state-sponsored social housing.
In 2013 Council agreed a twenty year urban growth strategy which seeks to exploit opportunities for both intensification and greenfield development in order to provide the range of homes required in the city. (Hutt City Council, sub. 17, p. 1)

Porirua City is in the process of preparing a structure plan to guide the future development, and zoning, of its Northern Growth Area. It is anticipated that this will result in an additional 250-300 hectares of land being made available for future residential development, from 2020/21 (subject to plan changes). While this area covers land that has topographical challenges, it is anticipated that this area will have the capacity to accommodate an additional 2000 residential allotments, meeting Porirua City’s suburban growth demand (based on existing development trends) to 2040. Future extensions to this growth corridor could accommodate future residential greenfield growth of the city out to 2050+. (Porirua City Council, sub. 24, p. 3)

The Tasman Resource Management Plan (TRMP) contains policies for each settlement on urban environment effects and dependant on the size of the settlement, policies exist to provide for the expansion and in some cases intensification of the settlement’s urban area over a 20 year timeframe. (Tasman District Council, sub. 25, p. 7)

As part of the Sectional District Plan Review the Council recently approved the Whakarongo Residential Area, a greenfield residential area capable of accommodating approximately 700-900 new homes. … The Council is also looking at incentivising well-designed medium density residential development … (Palmerston North City Council, sub. 26, pp. 1–2)

The SmartGrowth Partnership also has another project underway called the Settlement Pattern Review. The Settlement Pattern is the blueprint for the growth and development in the western Bay of Plenty identifying the existing and future location of residential and business land in a geographic and temporal manner for the next 30-50 years. (Tauranga City Council, sub. 47, p. 4)

Hamilton has an Urban Growth Strategy which sets out the future growth of the City. Hamilton is also a partner in the Future Proof strategy which was adopted in 2009 to achieve co-ordination of urban growth in the wider sub-region which encompasses Waikato District Council and Waipa District Council areas. … The two strategies outline where urban development will occur over the next 30-50 years which ensures the supply of housing will be sufficient to accommodate the expected demand driven by population growth. (Hamilton City Council, sub. 70, pp. 5–6)

Some of our larger urban councils have clear goals for urban intensification/regeneration, based around ‘compact city’ models:

Major redevelopment opportunities in Wellington are in Te Aro flat (Central Area zone) or identified suburban growth areas such as Johnsonville, Newlands, and Kilbirnie town centres, and Adelaide Road. It is likely further place-based development frameworks will be developed in the future to promote urban renewal and provide opportunities for high quality development. (Wellington City Council, sub. 21, p. 16)

Future Proof supports managed growth through the Future Proof Settlement Pattern, and implementing urban limits through the Regional Policy Statement. This enables local authorities to focus on the efficient delivery of their services. The Future Proof Settlement Pattern describes how the sub-region should develop in a unified and sustainable way with the aim for a more compact urban footprint. The Settlement Pattern is made up of key growth areas that have been identified within Hamilton City, Waipa District and Waikato District. (Future Proof, sub. 39, p. 2)

Auckland is already focussed on ensuring there is adequate land supply for housing on a number of fronts. Auckland’s spatial plan, The Auckland Plan, sets a target of an average seven years supply of ‘ready to go’ land for housing. … The high level Development Strategy in the Auckland Plan sets out how future development will achieve the quality compact urban form sought by Aucklanders. This includes ensuring high quality urban design, making efficient use of land, and providing staged expansion within the Rural Urban Boundary (RUB). (Auckland Council, sub. 71, p. 5)

This vision of urban development and growth – usually coupled with a dislike of “urban sprawl” and an emphasis on mixed use zoning, public transportation, and enabling walking and cycling – was firmly supported by many other submitters to the inquiry for a range of reasons including suggested health, biodiversity, food security and environmental benefits (subs. 6, 22, 51, 59, 60, 64, DR76, 85, DR87, DR99, DR115, DR116, DR131, DR136).

The Commission does not have a preference for whether cities grow out or up. Our larger cities will always have an element of both. In any event, what matters ultimately are the preferences of households and
whether they have available to them choice of housing types at different price points to cater for a range of income levels. Councils in our largest cities should be able to pursue the goal of a compact urban form if that is what their communities want. The key test is whether they deliver sufficient development capacity to house a growing population while delivering a choice of quality, affordable dwellings of the type demanded by purchasers. Those locational choices should internalise the costs of infrastructure provision.

Difficulty delivering on the vision

Despite clear ideas about how housing will be provided for in their cities, Chapter 11 notes that councils in our fastest-growing cities can have difficulties delivering on their spatial plans. These challenges are particularly evident in Auckland:

- commitments to a denser urban form in the Auckland Plan have not been sufficiently enabled in the Proposed Auckland Unitary Plan; and

- estimates of the amount of dwelling capacity that would be enabled in existing urban areas appear not to take account of the effect of overlaid restrictions on development or economic feasibility.

At the heart of the problem is high demand (other New Zealand cities would also struggle to accommodate the rate of growth that Auckland is experiencing), combined with a failure to confront the trade-offs necessary to give effect to the Auckland Plan. An international peer review of the draft Auckland Unitary Plan engagement process undertaken by Dr Ann McAfee, a former co-director of planning at the City of Vancouver, pointed to this weakness (Box 12.1).

Box 12.1 Extract from Review of Enhanced Engagement to Support the Draft Auckland Unitary Plan

The Auckland Plan establishes directions which reflect best practices for livable cities. However, the Auckland Plan does not provide clear directions for responding when choices need to be made between valued directions. The Unitary Plan, in grounding directions to establish regulations, provided a ‘real face’ to The Auckland Plan. In preparing the Draft Unitary Plan the Political Working Party and officers assumed the burden of choice making. This resulted in stakeholders questioning premises underlying the Draft Plan.

... Local engagement, without prior buy-in to The Auckland Plan, can lead to subtle stonewalling of city-wide directions.

... Successful plans provide direction to elected officials faced with difficult land use and resource decisions. Where land and funds are limited decisions usually result in trade-offs between valued directions. The Auckland Plan acknowledges this challenge:

“Provide sufficient development capacity ... certainty and speed of ... planning processes to enable the degree of redevelopment needed. This may require making some difficult decisions and trade-offs to achieve long-term outcomes.”

The Auckland Plan contains policies to promote urban intensification and manage peripheral growth (RUB [Rural Urban Boundary]). These policies reflect best international practice. However, The Auckland Plan contains contradictions and vague directions which challenged the Unitary Plan preparation process. For example:

- Section 523: “No area should be compromised by ... inappropriate density ... Development opportunities must maximise the potential of each site, but never at the expense of high quality living.” How is “inappropriate” density defined?
The Auckland Plan envisages some 400,000 new dwellings being needed in Auckland over the next 30 years, of which between 240,000 and 280,000 are to be constructed in existing urban areas (within the Metropolitan Urban Limit (MUL)). However, recent modelling undertaken by a group of 15 experts (the 013 Expert Group, Auckland Council Development Capacity Model 2015) found that only about 64,000 additional dwellings could be developed under today’s market conditions. In broad terms, the modelling found that areas earmarked for intensification are less economically feasible than areas protected from intensification. Some of the experts provided specific comments:

I note that the analysis clearly shows the desired 70:40 split will be very difficult to achieve, and hence that a different approach is required to avoid the risk of a profound and prolonged undersupply of land. For example, the results of this report show that the number of dwellings feasible for redevelopment today is only 16% of the 400,000 target, and hence that the lion’s share will need to come from other sources. (Fraser Colegrave in 013 Expert Group, 2015, p. 48)

I believe the only realistic response to get far closer to the 240-280,000 Auckland Plan target of dwellings within the 2010MAU [Metropolitan Area] is to:

1. Eliminate the density rules in the mixed housing zones, which will single handedly provide the biggest impetus to affordable housing.
2. Substantially up-zone all areas of missed opportunity...
3. Educate the NIMBYs [“not in my backyards”] on the financial effects of upzoning. As long as AC [Auckland Council] maintains strong urban design controls, all property owners of upzoned land will financially benefit to a greater degree than sites that have had no zoning changes. (Patrick Fontein in 013 Expert Group, 2015, p. 44)

Auckland Council has subsequently resubmitted parts of the Unitary Plan to allow increased density in some residential areas of the city, but it is clear that the gap between the intensification sought and that which is feasible under the proposed Unitary Plan is large.

12.3 How our cities are responding

Urban development authorities

In its draft report, the Commission pointed to the important role that urban development authorities (UDAs) can play in enabling urban regeneration and residential development in other countries. It discussed several models of UDA overseas, and discussed initiatives that are very similar to UDAs within New Zealand.
Government land organisations (GLOs) – generally known as urban development agencies – play an important role in urban regeneration and residential growth strategies in Australia, the United Kingdom, Hong Kong and parts of the United States. Urban development agencies have a range of forms and functions, but typically lead the development of specified areas. They may be permanent or time-limited bodies. In some cases, they may have compulsory acquisition or planning powers, allowing them to amalgamate smaller landholdings and rezone the combined site.

The Australian Productivity Commission (APC), in its review of planning, zoning and development assessments, concluded that GLOs can play an important part in speeding up and de-risking development:

> Greenfield subdivision developments seem to proceed more ‘smoothly’ in areas where some development has already occurred. As such, there may be a role for GLOs as the first developer into new settlement areas. This would provide precedent planning decisions on which other developers could base their due diligence and ensure major ‘lead in’ infrastructure was in place. (APC, 2011a, p. 184)

Discussing VicUrban (now Places Victoria), the APC pointed to the usefulness of GLOs in initiating complex brownfield developments:

> VicUrban is a recent example of the increasing trend for GLO activities to be directed toward infill [brownfield] developments. In these developments, some of the projects are so complex and high risk that they are unable to attract private sector interest at least in the early stages of development. As a result, many GLOs work to reduce the complexity of projects (for example, by remedying issues such as fragmented land holdings … and ‘derisk’ development sites (for example, restore contaminated soil) to a level where it is feasible for private sector developers to subsequently complete projects. (p. 153)

Davison et al. (2012) cites other possible benefits from the involvement of UDAs in land development, including:

- the potential for UDAs, as the owners or regulators of the land, to attach conditions to its final use to achieve social objectives (eg, greater provision of lower-cost housing);
- greater scope to manage urban renewal, so that “processes of change proceed in a co-ordinated manner”; and
- an enhanced ability, as the owners of amalgamated or renewed land, to capture some of the uplift in land value that accrues from redevelopment for community use (pp. 87–88).

UDAs also play a role in bringing affordable housing to market in some Australian states, but their effectiveness appears to depend on the agencies having sufficient planning powers, independence and clear targets (Davison et al., 2012, pp. 88–89). Kelly’s (2011b) review of “place-based development” concluded that

> [m]any of the most successful organisations have used temporary planning powers, owned or acquired substantial amounts of land, and combined public and private investment. (p. 20)

The Commission heard from its engagement meetings in Australia that some UDAs were pioneering the development of new housing typologies, such as smaller apartments and new design formats. These strategies were aimed at increasing housing choice. This innovation also sets a precedent (and gives confidence) for private sector developers to follow (ie, a “demonstration effect”).

UDAs can undertake large-scale developments. This offers a number of benefits, including the ability to generate economies of scale that can drive down infrastructure and construction costs. Larger developments are also important to attract overseas developers who may be better able to innovate and operate at scale. The Hobsonville Land Company was able to attract successful tenders from AV Jennings to be its building partner because of the size of the development opportunities presented. AV Jennings is one of Australia’s leading development companies, and had not previously operated in New Zealand. Growing the size of New Zealand construction firms, or attracting large firms to operate in New Zealand, is likely to require large-scale developments on large sites.

There have been several suggestions for UDAs in New Zealand.
• In 2006 a report commissioned by the Ministry for the Environment proposed creating both national and regional urban transformation corporations, to undertake urban regeneration, and demonstrate commercially viable, sustainable developments (SGS Economics & Planning, 2006).

• A 2008 discussion paper from an inter-agency Sustainable Urban Development Unit sought feedback on a development organisation to coordinate planning and investment, assemble land, and operate streamlined planning and consenting processes.

• The Urban Taskforce (2009), reporting to the Minister for Building and Construction, recommended creating “an Urban Development Agency model based on a set of clear partnering principles to deliver urban development projects” (p. 4). It said: “To accelerate both the quantity and quality of urban development, a tried and tested approach to complex urban development is needed. Urban development agency models are commonly used to bring all the parts of an important development package together in a consistent and integrated manner” (p. 3).

The Commission also noted the merits of this sort of collaborative approach to development in its Housing affordability inquiry (NZPC, 2012a).

F12.1 Urban development authorities can play an important role in de-risking development and bringing land to market.

Most submitters were positive about the role that a UDA could play in enabling residential development in our fastest-growing cities (subs. DR79, DR81, DR90, DR100, DR102, DR104, DR106, DR115, DR119, DR125, DR128, DR131).

Some submitters argued that it was important that a UDA gives effect to affordable housing goals, or the housing needs of Māori whānau (subs. DR91, DR91, DR124).

However many submitters expressed a preference for local (regional) UDAs, rather than a national UDA, including the New Zealand Property Council (sub. DR100), Waimakariri District Council (sub. DR108), Environment Canterbury (sub. DR110), the Greater Christchurch Urban Development Strategy Partnership (sub. DR112), and Christchurch City Council (sub. DR128). Only the Sustainability Society (a technical interest group of IPENZ, sub. DR137) was explicit in its preference for a national UDA model.

Porirua City Council (sub. DR88) and Bay of Plenty Regional Council (sub. DR89) did not consider that a UDA was necessary or workable in their district.

Auckland Council submitted against a national UDA, and instead urged support of Panuku Development Auckland, its own UDA vehicle. It said it did

[n]ot support the establishment of a central government UDA in Auckland; but [did] support central government undertaking complementary activities and working alongside Development Auckland to enable the council’s agency to achieve its objectives more quickly and deliver better outcomes for Auckland. …

The council welcomes discussions with central government on an approach to using existing levers to support the council’s activities via Development Auckland, and exploring options for how central government can best add and derive value in Auckland. (sub. DR135, pp. 6, 14)

This was a common view, with Christchurch City Council (CCC) submitting that “[a] top-down approach, that fails to consider the views of local people, has often been a criticism (and the undoing) of similar types of approaches overseas” (sub. DR128, p. 13).

F12.2 Submitters gave broad support for urban development authorities to lead urban regeneration projects that provide for residential development, but gave little support for one nationally established Authority.
In New Zealand's three largest cities, moves are already afoot to establish local UDAs.

**Auckland**

In May 2015 Auckland Council agreed to the creation of Panuku Development Auckland, a council controlled organisation (CCO) formed from the merger of two existing CCOs involved in developing property.

- Auckland Council Property Ltd undertook all property acquisitions and disposals for Auckland Council and Auckland Transport, managing about $900 million worth of assets. For example, it owns 90% of the property being developed in partnership with Todd Property into Ormiston Town Centre in Flat Bush.
- Waterfront Auckland managed 45 hectares of waterfront property that includes Wynyard Wharf, much of Wynyard Quarter, Westhaven Marina and part of Queens Wharf.

Panuku Development Auckland’s purpose is to contribute to the implementation of the Auckland Plan and encourage economic development by facilitating urban redevelopment that optimises and integrates good public transport outcomes, efficient and sustainable infrastructure and quality public services and amenities. Panuku Development Auckland will manage council’s non-service property portfolio and provide strategic advice on council’s other property portfolios. It will recycle or redevelop sub-optimal or underutilised council assets and aim to achieve an overall balance of commercial and strategic outcomes. (Panuku Development Auckland, 2015)

Its website says that its objectives are to:

- **Facilitate redevelopment of urban locations.** Consistent with the urban form and infrastructure objectives of the Auckland Plan, Panuku Development Auckland will facilitate private sector, third sector, iwi and government investment and collaboration into the sustainable redevelopment of brownfield urban locations. It will co-ordinate provision of council’s infrastructure and other investment in these locations.
- **Accommodate growth.** Panuku Development Auckland will contribute to accommodating residential and commercial growth through facilitating the quality redevelopment of urban locations with excellent public infrastructure and services. Redevelopment of the overall portfolio should offer a range of residential choices and price points to cater for diverse households.
- **Facilitate vibrant development.** Panuku Development Auckland will facilitate the creation of adaptive and resilient places that inspire wellbeing, promote health and safety and are fully accessible to disabled people and older adults. It will harness and incorporate the local community’s unique identity, attributes and potential to create vibrant communities.
- **Waterfront development.** Consistent with the Waterfront Plan 2012, Panuku Development Auckland will continue to lead the development of the Auckland waterfront in a way that balances commercial and public good objectives, including high quality urban design.
- **Optimisation of council’s property portfolio.** Panuku Development Auckland may facilitate quality redevelopment of underutilised council landholdings within current urban boundaries.
- **Contribute to the management of non-service properties.** Panuku Development Auckland will also manage council’s non-service properties in partnership with the council group. (Panuku Development Auckland, 2015)

Reports from Auckland Council indicate that it will “manage an annual operating expenditure of $70 million per annum and $75 million revenue. It will also manage a capital budget of $430 million over 10 years” (Auckland Council, 2015d).

**Wellington City**

The Wellington City Council considers significant opportunities exist to redevelop and intensify a number of areas, including the central city and a number of identified suburban growth areas. The Council submitted that it was considering launching a land development agency as a CCO to redevelop areas in the centre of Wellington and various suburban growth areas.
Wellington City Council noted in its initial submission that it was considering establishing a land development agency to implement the economic growth initiatives proposed in the Long Term Plan and to deliver affordable housing. However the Council also needs to be able to use enhanced urban regeneration powers to acquire, assemble and develop land for affordable housing.

Strategic land-use and masterplanning of developments and communities is a common approach in many overseas jurisdictions. Markets respond well to this as it is seen as value adding and provides investment certainty for governments, councils, developers, private partners, the public and potential land buyers. … this can provide certainty to the market and lead to private sector investment and growth in the local and national economy. …

These sites [identified growth areas] are characterised by fragmented/multiple land ownership and a variety of land uses. Development visions are hard to realise due to their complex nature and the limited mechanisms available to actively bring about change. …

The Council is considering launching a land development agency…Enhanced urban regeneration powers to acquire, assemble (and develop) land for affordable housing are required alongside this proposed Council CCO to make this happen. These powers could also be extended to apply to central government development agency, or a public private partnership. There would need to be strong controls around this development right. (Wellington City Council, sub. 21, pp. 12, 20, 50–51)

**Christchurch**

In Christchurch two nascent UDAs are being established.

In April 2015 CCC established Development Christchurch as a council controlled trading organisation, under the ownership of Christchurch City Holdings Ltd (CCHL). The Mayor of Christchurch said that the agency would “kick-start development within both central Christchurch and the suburbs and … provide this single point of entry for international investors” (CCC, 2015c). Development Christchurch Limited will be governed by a board nominated by CCHL and approved by the council. All projects it is involved in will be subject to council approval.

In July 2015 the Prime Minister announced the creation of Regenerate Christchurch, which will take over the rebuild of the central city from the Canterbury Earthquake Recovery Agency (CERA)’s Christchurch Central Development Unit (CCDU). This process is intended to help smooth the disestablishment of CERA. While Regenerate Christchurch will be established under ministerial control, it is proposed that over time control will be transitioned to CCC. Details on the functions, objectives and powers of Regenerate Christchurch are yet to be determined.

It is unclear how the two agencies will interact, although the Mayor of Christchurch has expressed support for Regenerate Christchurch.

**F12.3** New Zealand’s largest cities have local urban development authorities established or planned.

**A national urban development authority would be unhelpful**

In its draft report, the Commission discussed the option of establishing a national UDA to acquire, masterplan and tender for private partners to build large greenfield developments. This option has particular advantages in terms of enabling development at scale, and better infrastructure coordination. It also offered the possibility of allowing the uplift in land value from rezoning to be captured publicly to pay for infrastructure.

However, a national UDA is not recommended for a number of reasons.

- Given the speed with which local UDAs are being established, there is risk of a lack of coordination or rivalry between national and local development vehicles operating in a city. This would be counterproductive to the long-term positive relationship between central and local government which
will be necessary to overcome housing issues. There are also risks that this would dilute skills and resources, including capital.

- The approach would have funded infrastructure for greenfield development from value uplift, but this would undermine the incentive on infrastructure providers to establish more rational and efficient pricing and cost-recovery methodologies that ensure growth pays for itself and that locational choices incorporate the marginal costs of infrastructure.

- The model would have made greenfield land relatively cheaper to develop, which would bias growth towards the edge of cities. Local government should be given every opportunity to pursue the urban form it considers most desirable (including compact city models), providing this delivers sufficient development capacity for a range of housing typologies.

- With enough ready-to-build greenfield land to create competition in the market for land, the price of developable land can be brought down such that windfall gains from rezoning and infrastructure provision no longer accrue to landowners to the same degree as occurs currently. Reducing land prices will offset infrastructure costs. Where possible, solutions to enable a well-functioning market should be preferred, and recommendations for enabling this are discussed in sections 12.5 and 12.6.

- Holdout problems in assembling land are likely to be less significant in greenfield development than in already built-up areas.

The Commission acknowledges the submission from Auckland Council on the undesirability of having local and national UDAs operating in the same city. Rather than establishing a parallel UDA, central government should seek to support the activity of locally established UDAs.

**F12.4** A nationally established urban development authority is likely to be counterproductive where councils have urban development vehicles.

**Submitter views on the role and functions of urban development authorities**

Councils are responsible for determining how local UDAs are governed, structured, and capitalised, and what the focus of their activities should be. Submitters had a range of views on the role, functions and powers that UDAs should have (Box 12.2).

**Box 12.2  Submitter views on the role and functions of urban development authorities**

The Auckland District Council of Social Services said that where UDAs had been successful in Australia, they are the equivalent of CCOs, have elected councillors on the board, operate transparently and consultatively, have social, heritage and environmental objectives that are as important as economic objectives, produce and retain affordable housing, and are well-resourced by city and state governments (sub. DR81).

Te Rūnanga o Ngāti Whātua said a UDA should focus on delivering housing for those in most need of housing, and work proactively with Māori entities to resolve Māori housing shortages (sub. DR91). The Mana Whenua Kaitiaki Forum (sub. DR124) made similar points.

The Ngāti Tamaoho Trust submitted that a UDA should only operate in brownfield sites with the consent of the local community, and focus primarily on affordable housing. It said the UDA should not have separate planning powers and should not be required to partner with the private sector (sub. DR136).

The Property Council submitted that a UDA should:

- have powers to purchase/agglomerate land;
A few common views emerge. UDAs:

- should have the ability to focus on affordable or social housing;
- need to operate collaboratively with local government, central government, communities, and the private sector;
- need to be well structured, well governed, and well capitalised; and
- would benefit from having regulatory powers, and in particular the power to compulsorily acquire land as a last resort to assemble sites.

Tauranga City Council submitted that a UDA needed:

- a legislative framework for compulsory acquisition, as well as planning and rezoning powers;
- good capitalisation, including Crown backing through access to land, capital, or underwriting of debt; and
- clear objectives, and clear understanding of how profits would be used (sub. DR102).

Environment Canterbury submitted that a UDA should work collaboratively, and not have planning powers (sub. DR110).

The Greater Christchurch Urban Development Strategy Partnership submitted that a UDA should have a catalytic role, focusing on assembling land (including through compulsory acquisition as a last resort), masterplanning and getting sites development ready, and showcasing successful redevelopment models (sub. DR112).

Wellington City Council submitted that a UDA should have a strong charter and corporate structure, operate in accordance with overarching spatial planning documents, have broad powers to acquire land and gain regulatory approvals, and coordinate between local government and the private sector (sub. DR118).

The New Zealand Planning Institute emphasised the need for a UDA to operate collaboratively with local and central government and the private sector, and to be attuned to local circumstances (sub. DR125).

Christchurch City Council supported a model similar to English Partnerships, which had a focus on affordable housing, partnering with the private sector, and working collaboratively with the local community (sub. DR128).

The New Zealand Council for Infrastructure Development submitted that a UDA can develop land which might be uncommercial in the pursuit of public policy objectives, and build through periods of market downturn. It supported compulsory acquisition powers, providing they are exercised under the control of central government (sub. DR132).

The Institute of Surveyors also submitted that a public agency was needed to amalgamate land. They said it should operate independently from Council control, and have “special development area processes that could accelerate the planning and consenting processes” supported by legislation (sub. 74, p. 16).
Where local UDAs focus on delivering affordable housing, the Commission believes they should do so consistent with the findings in Chapter 7 (for example, through contributions of public land). However, they may benefit from additional regulatory and acquisition powers to support their activities.

12.4 Supporting local urban development authorities

The Commission agrees that local UDAs are most likely to be effective where they have the support of central government in undertaking their work.

The Housing Accords and Special Housing Areas Act 2013 (HASHA Act) has introduced common and streamlined approval processes for particular types of residential developments in declared areas. The Governor-General may designate “qualifying developments” and “special housing areas”, where more permissive planning rules and streamlined consenting processes would apply. Most local authorities who discussed the HASHA Act were positive about it (eg, Auckland Council, sub. 71; Tauranga City Council, sub. 47). However, the HASHA Act will begin to expire in September 2016.

Support for local UDAs should build on the relationships that local and central government have developed through Housing Accords. This model of designated developments offers the potential for central and local government to agree on redevelopment projects that offer the potential to deliver significant volumes of housing, within which the UDA will operate with different powers and land use rules. This is similar to the models employed in Australia by Places Victoria and Economic Development Queensland.

R12.1 The Government should legislate to create a regime similar to Special Housing Areas whereby certain developments undertaken by local urban development authorities are designated by Order in Council as having the potential to deliver significant numbers of dwellings, and within which the urban development authority will operate with different powers and land use rules.

To be clear, UDAs should be able to operate outside of such ‘designated developments’, but would not have any special powers or streamlined planning and consenting requirements in doing so.

The HASHA Act defines a qualifying development in a special housing area as a development that will:

- be predominantly residential; that is, the primary purpose of the development is to supply dwellings and any non-residential activities provided for are ancillary to quality residential development (such as recreational, mixed use, retail, or town centre land uses);
- have dwellings and other buildings no higher than 6 storeys, and a maximum calculated height of 27 metres;
- contain not fewer than the prescribed minimum number of dwellings to be built; and
- contain not less than the prescribed percentage (if any) of affordable dwellings.

In the context of the urban development which it is expected UDAs will undertake, these requirements will be too limiting. In particular, the redevelopment of town centres will require higher buildings, and are likely to require facilitating uses that are not ancillary to residential activities, in order for redevelopment to be economic.

R12.2 The Government should provide for ‘designated developments’ undertaken by local urban development authorities to allow higher height and storey limits than in the Special Housing Areas regime, and to allow non-residential uses that may be necessary for the development to be economically viable.
**Amalgamating land**

In a 2006 paper for the Ministry for the Environment, R Neil Gray argued that the “land problem” in New Zealand was different to other countries:

In the UK and US and Australia, urban regeneration is often proposed as a means of revitalising large tracts of derelict land (redundant docklands, factories etc). By contrast, New Zealand (particularly Auckland) has few such areas. Nor does New Zealand have large tracts of contiguous Crown land within its urban borders, or tracts of leasehold land. The problem in the New Zealand context is how to amalgamate small parcels of valuable urban land, into larger blocks that permit meaningful development. (p. 5)

Auckland is not entirely without such large contiguous sites, but they are rare. Many of the largest developments that are underway or currently being completed have involved repurposing brownfield sites, such as Hobsonville, Stonefields, and Three Kings. However, it is notable in each case that little or no amalgamation was integral to the project, with sites owned by either the Crown or Winstone.

Many submitters considered land amalgamation to be a problem:

A public agency with the ability to aggregate land would be beneficial. Such an agency would need access to considerable sums of money to acquire and hold land, before onselling to an interested developer. The ability of an agency to acquire large amounts of surplus land from government agencies such as Housing New Zealand, KiwiRail and the Ministry of Education would greatly assist in putting larger land parcels to its best use, rather than being fragmented into smaller land parcels and developed in an ad-hoc manner. (Allison Tindale, sub. 8, p. 26)

A particularly strong emphasis on brownfield land with many landowners creates problems of land assembly. There is also the problem that those land owners new to the development process have raised expectations of the value of their land. The coordination and cost allocation for the provision of infrastructure also increase significantly with multiple owners. (Selwyn District Council, sub. 45, p. 11)

Land fragmentation can be a barrier to cost effective, quality development in urban areas (not just brownfield) and the Agency [New Zealand Transport Agency] would support initiatives that help facilitate urban intensification in these areas. One example could be establishing an appropriate public body or entity that can aggregate multiple parcels of land to undertake desirable urban redevelopment. (NZTA, sub. 73, p. 12)

In its report on Housing affordability, the Commission noted the desirability of “bringing significant tracts of both greenfield and brownfield land to the market in Auckland and Christchurch” (2012a, p. 102). Significant scale economies can be achieved in land development and building, but this often requires the aggregation of smaller parcels of land. The Ministry of Business, Innovation and Employment (MBIE) has also identified fragmented land ownership as a constraint on residential housing supply, limiting the opportunity for large-scale development opportunities (MBIE, 2014d). The Urban Taskforce report (2009) identified “difficulty in aggregating significant areas of residentially zoned land” as a barrier to high-quality, larger-scale urban developments (p. 17). The Commission concluded in its draft report that a failure in coordination was preventing many large residential developments.

In its draft report the Commission discussed at length the economics of land assembly, and the case for compulsory acquisition powers to address housing shortages. That discussion can be found in Appendix B. The Commission came to a number of conclusions around the use of acquisition powers.

- Holdouts in land assembly projects impose a supply-side externality, with the direct implication that government can correct the allocative inefficiency through compulsory acquisition (known as “eminent domain” in the United States) (Miceli, 2011).

- Assembly problems are more significant in the centre of cities, because lot sizes are generally smaller and ownership more dispersed than greenfield land on the fringe of cities. As a result, holdout problems in urban areas bias development towards the urban fringe.

- Private property rights serve essential economic purposes. But they are not absolute, and can be restricted in accordance with law where it is in the public interest.
Circumstances exist in which the economic and social harms that result from a housing shortage should be considered sufficient to justify the compulsory acquisition of land for the construction of housing.

The housing shortage produces significant social and economic harms, as outlined in Chapter 3 and above in Section 12.1.

Most countries provide power for the government to acquire property for public purposes, with compensation.

Compulsory acquisition powers can be effective without being exercised, by facilitating negotiated acquisitions. These agreements are usually preferable to compulsory acquisition to both the public agency and the landowner, although they still involve coercion.

A range of theoretical alternatives are available in the economic literature to overcome holdout problems. Few mechanisms ensure only efficient developments proceed and owners are fairly compensated, and where they do they rely on unreasonable assumptions (eg, that government can correctly predict the likelihood of developers purchasing land at given prices).

Any proposal for compulsory acquisition of Māori land would face sensitive Treaty issues. Past legislation on compulsory acquisition has contained explicitly discriminatory provisions for taking Māori land (Marr, 1997). The Waitangi Tribunal has consistently argued that the compulsory acquisition of Māori land for public works is almost always a breach of the Treaty of Waitangi (see, for example, Wai 863). Any regime to compulsorily acquire land for housing developments needs to recognise both the associated risks and positive partnership opportunities.

The power of local authorities to acquire land for housing is unclear

Compulsory acquisition is provided for in a number of New Zealand statutes, based around the Public Works Act 1981.

In New Zealand, the Public Works Act 1981 gives the Minister of Land the “power to acquire any land, required for any Government work” (s 16 (1)). Government work is “a work or an intended work that is to be constructed, undertaken, established, managed, operated, or maintained by or under the control of the Crown or any Minister of the Crown for any public purpose”, including any work that the Crown is authorised to undertake by any other Act. Local authorities are similarly empowered to acquire land for local works. Local work means a work constructed or intended to be constructed by or under the control of a local authority, or for the time being under the control of a local authority. Taking of land wholly for private purposes is not authorised (see Bartrum v Manurewa Borough [1962] NZLR 21).

The Local Government Act 2002 authorises local authorities to compulsorily acquire land that “is necessary or convenient for the purposes of, or in connection with, any public work that the local authority was empowered to undertake immediately before 1 July 2003” (s 189). At that time, local authorities had the explicit power to “undertake and carry out urban renewal in the district” (s 644B of the Local Government Act 1974).

The Canterbury Earthquake Recovery Act 2011 provides the Minister with the power to acquire land, but imposes a narrower compensations regime than would be available under the Public Works Act 1981. These powers have been used to amalgamate sites required for the East Frame of central Christchurch. The East Frame is intended to deliver about 750 dwellings on approximately 13 hectares, as well as retail and recreation facilities. The Crown had to acquire 92 properties for the East Frame, but acquired most by agreement, with 9 being compulsorily acquired (Brownlee, 2013).

Section 5 of the Housing Act 1955 gives the Governor-General power to use the Public Works Act 1981 to take land required for “State housing purposes”; the taking of Māori land under this provision requires the consent of the Minister of Māori Affairs. Section 2 defines State housing purposes as

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55 The courts have held that land was “required” if its acquisition was, viewed objectively, essential or reasonably necessary rather than, in some general sense, desired (Seaton v Minister for Land Information [SC 44/2012 [2013]].
the erection, acquisition, or holding of dwellings and ancillary commercial buildings by the Crown under this Act for disposal by way of sale, lease, or tenancy; and includes the acquisition of land by the Crown—

(a) as sites for dwellings and ancillary commercial buildings:
(b) for schemes of development and subdivision into sites for dwellings:
(c) for motorways, roads, streets, access ways, service lanes, reserves, pumping stations, drainage and water works, river and flood protection works, and other works upon or for the benefit of the land so acquired or the occupiers thereof.

The application of existing compulsory acquisition powers to situations of urban development is unclear (Sustainable Urban Development Unit, 2008). There is a great deal of uncertainty about the ability of local government to compulsorily acquire land for urban regeneration or housing. The powers under the Local Government Act 2002 appear to be seldom, if ever used, so their application is uncertain, particularly given the unusual construction of the power.

The ability of local authorities to compulsorily acquire land for housing or urban regeneration is unclear.

Compulsory acquisition powers are a significant limit on private property rights, which should not be made available lightly. Where they are available, they should be clear, exercised with restraint, and subject to appropriate restraining institutional structures.

The Commission’s view is that the activity of locally established UDAs should be supported by the availability of compulsory acquisition powers in some circumstances, and that such powers are justifiable to overcome holdout problems in urban regeneration given the wider public interest in access to housing.

The powers should be modelled around the existing provisions of the Public Works Act 1981, which contains a well-established process and a number of safeguards for controlling the use of acquisition powers by the Crown, local authorities, network utilities or River Boards. These safeguards include:

- statutory processes to be followed, including an obligation to first negotiate in good faith to acquire the land;
- the right to object to compulsory acquisition to the Environment Court, which enquires into whether alternatives have been considered, and decides whether the taking is “fair, sound and reasonably necessary” – these findings are binding on the Crown or local authority; and appeals from the Environment Court are available on questions of law;
- if the amount of compensation cannot be agreed, then the amount of compensation will be determined by the Land Valuation Tribunal; and
- the High Court has inherent powers of judicial review over a Minister or local authority’s decisions to acquire land, with further appeals possible.

The Government should legislate to grant compulsory acquisition powers to local urban development authorities for ‘designated developments’, subject to the normal processes, compensation and protections of the Public Works Act 1981.

However, the “offer back” provisions of the Public Works Act 1981 will need to be limited to situations where the land is no longer needed for the development. It would be impractical to take land, redevelop it significantly, and be required to offer the land back to the original owner.
The Government should adjust the ‘offer back’ provisions of the Public Works Act 1981 for use by urban development authorities, so that they are not obliged to offer back land that has been significantly redeveloped.

Planning and consenting processes
As organisations wholly owned by local councils, and needing to work in close collaboration with those councils, the Commission does not see a good case for granting local UDAs with planning powers of their own. However, councils and developers generally considered the expedited planning processes of HASHA were very positive.

Special Housing Areas operate with streamlined consenting and plan change timeframes, and with notification limited to immediate neighbours. This model should also apply to ‘designated developments’ undertaken by UDAs. Councils or UDAs will have other opportunities to consult with communities about redevelopment proposals, outside of consenting.

The Government should provide for ‘designated developments’ undertaken by local urban development authorities to operate under streamlined planning and consenting processes. This should include restricting public notification.

Other support for local urban development authorities
Government has a range of ways in which it can support the activity of local UDAs, including through making Crown land available (see Chapter 7), partnering in specific projects, and ensuring that Housing New Zealand cooperates where relevant.

The Government should look at other opportunities to support the activity of local urban development authorities to deliver on councils’ goals for urban redevelopment, including through making Crown land available, partnering in specific projects, and ensuring that Housing New Zealand cooperates where relevant.

Having put in place a regime to support councils in our largest cities to deliver on their aspirations for their future development, Government should also introduce measures to ensure that where they fail to deliver sufficient capacity to meet demand for housing, that such land is made available.

12.5 Ensuring that development capacity is sufficient to meet demand
This chapter has argued that central government should be supportive of the vision that New Zealand cities have for their future. But it has also recognised that, in practice, cities facing the greatest pressure for new housing have found it difficult to provide adequate capacity. Pursuit of a desired urban form should not come at the expense of providing adequate capacity for housing in a range of typologies and price points; where it does, central government should be prepared to intervene to ensure sufficient land for housing is made available.

In the course of the Commission’s inquiry into Housing affordability (2012a), the Reserve Bank submitted that

> the key supply factors appear to be the availability and price of land for residential purposes and construction costs. The Resource Management Act, and the way it is applied by local councils, may be playing a role. One solution that is often advanced regarding land prices is for metropolitan planning agencies to ease their urban limits and, more generally, to ensure that residential zoning practices are more directly responsive to market price signals. This will help ensure that land is used for the most economically valuable purposes, as revealed by prices. (sub. 37, p. 7)
The remainder of this chapter outlines a proposal to enable this, drawing on a recent paper from the New Zealand Institute of Economic Research (2015b) on how land prices can help guide land use regulation.

**What is sufficient land for housing?**

This report has argued that approaches that allocate land based on forecast household and population growth are unlikely to ensure that sufficient land for housing is made available. Forecasts are slow to adapt, they can be wrong, and demand is not only a function of household growth but also income growth and changing preferences. Further, this approach fails to generate competition in the market for land, with continuing escalation in land and house prices. Councils implicitly recognise the need to maintain some reserve capacity, through their commitments to having several years’ worth of land “ready to go”. But such approaches ration or allocate land based on assumptions about how much land will be required, rather than any market signals about how much land is demanded, or what the best use of land is. There are clear difficulties in establishing whether or not a council is in fact providing adequate land based on this approach, as is clear from the considerable debate about the proposed Auckland Unitary Plan.

Cheshire and Sheppard (2005) have argued that planning systems (like the New Zealand system) fail to take account of price signals about demand for land:

> [T]he allocation of land supply for each urban purpose by fiat quite independently of price has resulted over time in the emergence of very substantial discontinuities for adjoining parcels of land. This is because, although the total supply of land for each category of use in each locality is allocated independently of price, the market then allocates the determined supply of land for each use through the price mechanism to competing occupiers or developers. These price discontinuities, therefore, reflect the current expected degree of supply constraint on land for each type of planned use in each locality. So they provide a flexible price signal which will vary both over time and between cities yielding information about the relative scarcity of land for specific uses at the particular location and time. (p. 649)

Every city has an effective barrier between land that is available and able to be developed for housing, and land that is not (which may correspond to an urban limit, or may correspond to the extent of bulk infrastructure servicing). Discontinuities in the price of land on either side of this barrier represent demand for land for housing, and expectations about its future value or scarcity, in the face of rationing of space (either by the planning system or by the lack of infrastructure provision).

Large differences between the price of developable and non-developable land reflect demand for urban uses that are prevented by the planning system or by a lack of growth-enabling infrastructure.

**The effect of the MUL in Auckland**

A series of studies (Grimes & Liang, 2009; NZPC 2012a; Zheng, 2013) have demonstrated the effect of Auckland’s MUL on land prices. Although each has a different methodology, all show a discontinuity of price that indicates that the planning system is not responding sufficiently to the demand for land for housing.

The Commission has used the latest land value data in Auckland from 2014 to update its 2012 research, producing a series that estimates the impact of the Auckland MUL on residential land prices (Figure 12.2). More information on the methodology can be found in Appendix C.
Using land for housing

Figure 12.2  Ratio of residential land prices inside the MUL against land prices outside the MUL

Source: NZPC, 2012a; Productivity Commission analysis of Quotable Value data.

Notes:
1. Estimates are based on Huber’s robust regression with the tuning parameter equal to 4.5.

This graph shows that residential land inside the MUL is almost 10 times more expensive than land outside the MUL, up from over 6 times in 1998 and 7.8 times in 2001.

Discontinuities of price between land inside and outside the Auckland Metropolitan Urban Limit continue to grow.

As argued elsewhere in this report, it would be desirable for the planning system to explicitly take account of price signals. The starting point for doing this is better and more accessible information about prices.

Sources of price information

Public access to information about housing and the housing market is constrained by current business arrangements between local authorities and the state-owned enterprise Quotable Value (QV).

Information on property is sold by local authorities to QV, which then aggregates the data and sells raw or processed information to individuals or firms. Most local authorities also contract QV to assess property valuations for rating purposes in their areas and to maintain District Valuation Rolls (DVRs).

These DVRs contain a range of information, including assessed values, the age and size of buildings, land and floor area, and the assessed highest and best use of the land. The information in a DVR is of considerable general use to researchers, government departments, and the wider economy. In the course of this inquiry, the Commission was assisted by access to the DVRs of two large cities. The Office of the Valuer-General receives DVRs from local councils for the purposes of audit, but does not keep them or maintain a national roll (although it has been required to in the past).

Although the prices charged by QV for access to individual data items (eg, information on a particular property) are not high, some commentators have argued that the prices for larger datasets required for detailed analysis can be prohibitive (Schiff, 2015). The lack of ready public access to property information, which is largely sourced from local authorities, seems to sit uneasily with the spirit of the Official Information Act 1982, the Local Government Official Information and Meetings Act 1987 and the Government’s publicly stated commitment to actively release “high-value public data” to enable the private and community sectors to use it to grow the economy, strengthen our social and cultural fabric, and sustain our environment. We release it to encourage business and community involvement in government decision-making. (New Zealand Government, 2011)
In their submissions, the Property Council and Wellington City Council supported making this information more publicly available, and Wellington City Council also sought better access to data held by Land Information New Zealand. Federated Farmers said this matter was “better left to the private sector” (sub. DR120, p. 9). The Commission considers considerable public benefit would be gained from making the information more widely available.

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**R12.7**

Land Information New Zealand should provide wider public access to information in District Valuation Rolls and property sales data.

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**Monitoring land price differentials**

Using this data to inform land use regulation requires more work. Over time, price differentials for land within cities could inform decisions about zoning; the relative needs for residential, commercial and industrial land; the location of public services; and the desirability of different land use rules within existing urban areas (see Chapter 11).

However, given present housing challenges, the starting point should be to monitor whether a city has sufficient residential capacity. The best way of determining whether adequate land is available to meet demand for housing is through monitoring the relative price of developable (ready-to-build) land, and non-developable land at the edge of a city.

Officials should develop a process to monitor and report on these relative land prices. This process will require consistent definitions about the readiness of land for building, as recommended in Chapter 8. But this will require access to data described above, particularly to develop an index that is more frequent than the 3-yearly rating revaluations. This sort of index can be constructed in a number of ways. What is important is that the methodology developed is transparent and reflects the discontinuities of price between developable and non-developable land.

**R12.8**

The Government should develop a process to regularly monitor and report on the relative prices or assessed values of developable and non-developable land in our fastest growing cities.

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**Triggers for land release**

Knaap and Hopkins (2001) argue that where cities have urban growth boundaries, too much emphasis is placed on having sufficient land over a given time period, and too little emphasis on the circumstances in which an urban growth boundary should change in response to how fast it is developed. They argue that event-driven triggers for land release, based on the actual use of land set aside for future growth, can be a better approach to managing an urban growth boundary:

> [R]ecent advances in land information systems have made event-driven systems a viable approach to urban growth management and UGB [urban growth boundary] expansion. UGBs are likely to work better if expansions are triggered when the supply – or the price – of land reaches some critical level. (p. 325)

In Auckland, the Rural Urban Boundary will define the urban extent of Auckland to 2040. Greenfield land will be released “in an orderly, sequenced way” (Auckland Council, 2012b, para 533). Auckland Council’s current plan for releasing future land is based around time-driven releases. Its Draft Future Urban Land Supply Strategy identifies a programme to sequence this [future urban] land over 30 years. … The timeframe is split into three decades, and each decade into five year intervals. Distributing the greenfield areas over this timeframe enables them to be proactively planned in an orderly and cost efficient way, ensuring the areas are ‘ready to go’ with the required bulk infrastructure and able to deliver the quality urban outcomes anticipated in the Auckland Plan. The sequencing also accounts for the development capacity needed to accommodate greenfield growth. (Auckland Council, 2015e, pp. 3, 6).
The areas proposed to be made available for development, in each five-year period, are outlined in Table 12.1.

### Table 12.1 Auckland Council’s Draft Future Urban Land Supply Strategy

<table>
<thead>
<tr>
<th>Time period</th>
<th>Areas to be developed</th>
<th>Estimated dwelling capacity</th>
<th>Estimated infrastructure costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012–2016</td>
<td>Special Housing Areas in the North-West and South of Auckland</td>
<td>9 000 – 12 000</td>
<td>$2.8 billion total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Transport $1.4 billion</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Wastewater $450 million</td>
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<td></td>
<td></td>
<td></td>
<td>• Water $500 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Other $400 million</td>
</tr>
<tr>
<td>2017–2021</td>
<td>Paerata and Whenuapai</td>
<td>11 100 – 13 100</td>
<td>$7.1 billion total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Transport $3.8 billion</td>
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<td>• Wastewater $1.35 billion</td>
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<td></td>
<td>• Water $1.34 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Other $600 million</td>
</tr>
<tr>
<td>2022–2026</td>
<td>Pukekohe, Kumeu-Huapai Riverhead, Redhills, Warkworth North</td>
<td>17 500 – 21 400</td>
<td>$3.8 billion total</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Transport $1.5 billion</td>
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<td>• Water $400 million</td>
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<td></td>
<td></td>
<td></td>
<td>• Other $1.5 billion</td>
</tr>
<tr>
<td>2027–2031</td>
<td>Opaheke – Drury, Takanini, Warkworth South</td>
<td>12 800 – 18 300</td>
<td></td>
</tr>
<tr>
<td>2032–2036</td>
<td>Karaka, Silverdale-Dairy Flat, Wainui</td>
<td>31 600 – 40 800</td>
<td></td>
</tr>
</tbody>
</table>

Source: Auckland Council, 2015e.

This draft strategy has recently been the subject of consultation by Auckland Council. The Commission has not independently reviewed the Council’s estimates of dwelling capacity or infrastructure costs.

This sort of time-driven approach to releasing land is predictable, providing relative certainty to local government, infrastructure providers, developers and landowners about when land will be released, allowing them to plan for it. But Knaap and Hopkins (2001) argue that this approach is also relatively inflexible in the face of changing demand, particularly if those changes are unexpected.

Rather than time-driven releases of land, as in the case of Auckland Council’s Draft Future Urban Land Supply Strategy, Knaap and Hopkins argue that cities should plan to have a volume of land available for development, and release it when that inventory of developable land is reduced to a certain threshold, rather than on a regular time-driven basis. As a result, where land is developed faster than anticipated and the stock is sufficiently depleted more can be released, and releases will be more frequent; when land is developed slower than anticipated, then expansions of the city will be less frequent. The stock of available land never falls below a set level, because at that point the stock will be replenished.

Through this approach, the expansion of a city can be much more responsive to demand, and will lead to more stable prices. However, this responsiveness comes at the cost of certainty about when land will be released. The authors also note that there are administrative challenges. The volume of developable land must be regularly monitored; and land must be ready and available to be released to replenish the inventory.

Challenges to planning for releasing new greenfield land are undeniable, when the timing of that release is uncertain. But event-driven triggers to release land have significant advantages in terms of being responsive to demand, and for the stability of land prices.
Event-driven triggers to release land will be significantly more responsive to demand for land than time-driven approaches. This will contribute to more stable land prices for developable land.

Using price signals to trigger land release

Knaap and Hopkins (2001) propose that releases of land would be triggered when the volume of developable land drops to a certain threshold. An alternative would be to trigger releases of land when discontinuities of price between developable and non-developable land reach a certain threshold. This approach would mean that releases of land take advantage of price signals about effective demand for land for housing.

In particular, for councils seeking to pursue compact urban forms, it would send signals about how effective they are in providing sufficient economically feasible development capacity for intensification within existing urban areas. Discontinuities of price at the edge of a city reflect demand for additional space for residents. To a large extent, development capacity in the centre of the city (up) and the edge of the city (out) are substitutable. Homeowners make trade-offs in their housing choices taking into account dwelling price, size, transport costs etc. Where councils can successfully provide that additional space in the centre of cities, then this will reduce discontinuities of price at the fringe of the city.

This approach would reduce the importance placed on forecasting population growth, and estimating how many additional dwellings could be accommodated by particular changes to land use rules; rather, effective demand as reflected through prices would indicate whether sufficient capacity had been provided to meet the demand for housing.

A credible commitment to releasing and servicing additional greenfield land, in the event that discontinuities of price between developable and non-developable land reach a certain threshold, would have a number of benefits.

Such a commitment would assist councils to confront the trade-offs required to deliver on their preferred urban form. Clear evidence exists that the Proposed Auckland Unitary Plan will not deliver sufficient increased density to meet the objectives of the Auckland Plan. Claims that Auckland has sufficient greenfield land for a number of years into the future are meaningless in this context; in total, Auckland lacks sufficient development capacity for a functioning market to meet demand for residential space in the city as a whole.

The knowledge that a failure to upzone in already built-up areas of the city will lead to the release of greenfield land will place greater impetus on councils to create land use rules that will give effect to their urban vision of a compact city; or else the land necessary to house a growing population will automatically be released on the fringe of the city.

Price signals provide an indication of whether councils are successfully creating sufficient economically feasible capacity for more dwellings within their cities. Where councils are pursuing denser urban forms, price signals provide an indication of whether their land use rules facilitate this in practice.

A commitment to release additional land where price discontinuities reach a certain threshold would assist councils in confronting the trade-offs necessary to give effect to their visions for a more compact urban form.

Chapter 4 outlines that when land prices are escalating, owners can be encouraged to hold land rather than develop it. A credible commitment to stop price discontinuities would also significantly change the

56 And, to the extent that upzoning in urban areas does not fully feed into reduced price discontinuities on the edge of cities, then these discontinuities show a continuing unmet demand for space of a particular type; i.e a residual demand for greenfield-style housing.
incentives facing land bankers. It would no longer be rational to hold land undeveloped or underdeveloped in the expectation of future price increases. The first and most immediate effect of a policy to release land whenever sufficient discontinuities of land price were reached would be for land bankers to sell or develop land, providing that they believed the mechanism would preclude future land price inflation (ie, they believed there would be follow-through on releasing the land).

F12.11 A credible commitment to releasing additional greenfield land when price discontinuities reach a given threshold would promote the release of land currently being held in expectation of future price increases.

12.6 How could price-driven land release operate in New Zealand cities?

The role of central government

A major theme of this report has been a divergence between national and local interests in the benefits of facilitating additional growth in our largest and fastest-growing cities. Where cities fail to meet demand for land for housing, there are a range of negative social and economic consequences. Managing these consequences is in large part the responsibility of central government; for example, it is government that ultimately has to manage the risks of macroeconomic instability, make larger payments through the accommodation supplement, or identify and pay health costs that arise from illness associated with overcrowding. It is the nation that misses out on the productivity benefits of agglomeration.

Theories about the level of government where decisions should be taken emphasise that the jurisdiction of decision making should correspond to the jurisdiction of effects (NZPC, 2013; Oates, 1999). In Towards better local regulation, the Commission said that “[w]hen the costs and benefits of a particular outcome spill over outside local boundaries, then decision makers that cover the spillover should have control over the regulatory policy” (2013, p. 120). Chapter 3 makes the case that the distribution of agglomeration costs and benefits can lead local government to prefer less or slower growth than is in the national interests.

The Resource Management Act 1991 (RMA) is a highly devolved framework. In a case where the benefits are national and the costs local, one solution would be to shift the locus of decision making to a national level. Central government is better able to trade off the interests of existing homeowners against renters, those in temporary or other irregular accommodation, and those seeking to purchase a first home, in part because of its broader democratic mandate.

Chapter 3 discusses research by Hsieh and Moretti (2015) which found that if the US cities with the most regulated housing supply had those constraints lowered to the level of the median city, Gross Domestic Product (GDP) could increase by 9.5%. The authors comment:

In principle, one possible way to minimize the negative externality created by housing supply constraints in high TFP [total factor productivity] cities would be for the federal government to constrain U.S. municipalities’ ability to set land use regulations. Currently, municipalities set land use regulations in almost complete autonomy since the effect of such regulations have long been thought as only local. But if such policies have meaningful nationwide effects, then the adoption of federal standard intended to limit negative externalities may be in the aggregate interest. (p. 35)

Kerr, Claridge and Milicich (1998) argue that while the legal/institutional structure of devolution in the RMA is basically sound, effective devolution requires careful attention to the relationship between central and local government, as well as the location of decision making. They offer a number of suggestions for how this can work better, including:

- **Clarify responsibilities.** Chapter 11 notes the need to clarify the place of housing and urban environments in the RMA. There may also be insufficient guidance around the objectives or outcomes that central government seeks to achieve through devolution:
Problems can arise when central government intends local government to make decisions but does not make this clear. Where it does want to influence local government, it should provide sufficient guidance. Lack of clarity over responsibilities leads to situations where local government does not feel empowered, and neither local or central government regards itself as fully accountable. (Kerr, Claridge & Milicich, 1998, p. 44)

- **Improve formal and informal contracts between central and local government.** The HASHA Act is a clear attempt at addressing this. Chapter 11 also discusses the role that a proposed National Policy Statement on urban development could play in setting expectations. But relationships matter too:

  > Attention needs to be paid to the incentives of each level of government to cooperate with the other and meet their needs … One aspect of the contract is the formal, written specification of expected outputs, monitoring responsibilities and rewards. Perhaps an equally, and under-utilised component of contracts is the informal contract that arises through long term personal relationships, corporate culture and moral, trust and concern for reputation. (Kerr, Claridge & Milicich, 1998, p. 44)

- **Reduce duplication of objective information and technical skills.** This report considers councils have opportunities to adopt better rules based on a full understanding of their costs and benefits (Chapter 5), as well as processes that make better use of coordinated information and skills in planning large, fast-growing cities (Chapter 11).

- **Strengthen the political accountability of local government.** This divergence between local and national interests in the growth of cities can be partly explained by the political economy of local planning. This report argues that local government should prefer more growth than it appears to, and that this is caused by local democratic processes that prioritise the views of those who see more cost to growth locally, and do not adequately take account of those who see more benefit locally. Addressing those problems could go a considerable way to closing the “wedge”:

  > Any improvements in the local political process will enhance the benefits of devolution. In some cases central government may decide that the poor political accountability of local government … makes it inappropriate for them to take certain types of decision. (Kerr, Claridge & Milicich, 1998, p. 45)

In its inquiry into *International freight transport services*, the Commission found that

> central government plays an important role in providing direction on issues that involve balancing local values with regional or national benefits. Without clear signals from central government, national benefits and costs may be assigned a lower priority during the planning and consent process – resulting in a potential reduction in the overall wellbeing of society. (2012b, p. 151)

This undervaluing of national benefits can be seen in local decisions about the availability of land for housing.

**Setting a trigger threshold**

Government is best placed to set expectations around what is an unacceptable provision of development capacity for housing. It is central government that bears the residual risk from a failure to provide sufficient residential capacity to meet demand.

For these reasons, government is best placed to determine what level of land price differential would be unacceptable such that a release of greenfield land is triggered. At present it is not possible to say what ratio of developable land price to non-developable land price is the ‘correct’ ratio based on current information; this should be done once regular monitoring of relative land prices is established. However, it would be reasonable to expect that the threshold would be lower than the current land price differentials that exist in Auckland.

A government announcement that it intends to set a price differential threshold, beyond which it will act to make additional greenfield land available, is, by itself, likely to change the incentives facing owners who are holding land in Auckland in expectation of future price increases.

**The role of ministers**

Breaking expectations around future land price inflation is critical to improving the supply of land for housing. This requires:
• clarity about the point at which prices are too high; that is, certainty about the price ratio trigger point; and
• a credible belief on the part of landowners and developers that action will be taken to release and service additional greenfield land at the point the trigger is reached.

The decision about the level at which the ratio should be set is complex. It involves trading off national housing outcomes against local democratic decisions about urban development.

In its *Regulatory institutions and practices* report, the Commission found that ministerial decision making in regulatory regimes is likely to be appropriate where the decisions involve

- significant value judgments, where trade-offs are not readily amenable to analysis; or
- significant fiscal implications, or which are integral to a government’s economic strategy. (2014, p. 270)

Decisions about the level at which the price ratio will trigger action clearly meet the first – and arguably, both – of these criteria. Ministers should determine what level of land price inflation is delivering negative housing outcomes such that intervention is needed by setting a transparent price ratio trigger point. This is similar to the Reserve Bank’s Policy Targets Agreement.

However, the desirability of certainty that the trigger will be acted on suggests that decisions about whether additional greenfield land will be released should not be discretionary, but should be relatively automatic once the trigger is reached. One of the benefits of this approach is depoliticising decisions about whether enough residential space will be made available, with the focus instead on how it will be made available.

**What happens when the threshold is reached?**

Knaap and Hopkins (2001) point to the need for several classes of land in reserve to be released, because of the uncertainty about when releases will take place:

- **lead-time inventory** to accommodate growth between a decision to release new land and the land becoming ready to develop;
- **safety-stock inventory** in case growth is faster than expected; and
- **market-factor inventory**, which is needed to provide consumer choice and prevent monopoly pricing.

As illustrated above, New Zealand urban councils have a clear idea about where future greenfield growth will be accommodated. In the case of Auckland, the council’s proposed schedule for releasing new greenfield land is described in the Draft Future Urban Land Supply Strategy (Auckland Council, 2015e). Once a price differential threshold is reached, the next tranche of greenfield land identified for release in the Strategy will be brought forward and made available early.

In practice, this would involve early discussions between central government and the council in question about what areas are best suited to accelerated release. The Housing Accord and Auckland Transport Alignment Project provide a good basis for central and local government to work together to address these issues. The Commission’s 2013 report *Towards better local regulation* also outlines institutional mechanisms that would support this relationship.

But central government would also need powers to ensure that plan changes could be effected. This would require the development or confirmation of a structure plan for the area in question, the ability to rezone, and providing for infrastructure connection to ensure that land is ready to build.

**Infrastructure provision**

Infrastructure provision in greenfield areas brought forward for early release would be the most significant challenge. In the case of Auckland the costs indicated in the Draft Future Urban Supply Strategy are significant. The Strategy describes some of the infrastructure challenges. Three examples are noted below (Auckland Council, 2015e).
In Paerata and Pukekohe the bulk water network is adequate to cater to growth, and little stormwater investment is required. However, the Strategy indicates that significant investment in the wastewater and transport networks would be required, and suggests a new rail station at Paerata and electrification of the line to Pukekohe.

Growth areas in the northwest (Whenuapai-Redhills, and Kumeu-Huapai and Riverhead) are constrained by wastewater capacity that will be addressed by the Northern Interceptor project planned for completion in two stages, at 2021 and 2028. The Strategy also indicates a need for investment in public transport, such as a busway to service these areas.

Warkworth would require upgrades to water and wastewater connections, and upgrades to the Snells Beach Wastewater Treatment Plant. The Strategy also indicates that transport will remain constrained until the completion of the Puhoi-Wellsford upgrade in about 2022.

Bringing forward greenfield growth areas will require infrastructure providers to bring forward a number of capital projects, and finding associated financing. Watercare’s capital investment profile indicates that it intends to spend 40% more in the period 2026–2035 than in the decade before it. This indicates there will be opportunities to bring some projects forward. This report has argued that significant opportunities exist to improve Watercare’s cost-recovery practices, and to introduce demand-management charges in the transport network. Both opportunities will alleviate infrastructure constraints.

Ultimately bringing forward infrastructure will require debt financing, recovered through the use of rates, development contributions and growth charges. Requiring infrastructure providers to bring forward capital investments to service greenfield land will encourage those providers to introduce more rational cost-recovery practices and the use of targeted rates as recommended in Chapters 8 and 9. Better pricing of the cost of growth, and the more effective use of development contributions and targeted rates are an important component of a coherent response.

Additional Crown funding for servicing greenfield areas that are brought forward would create a moral hazard. Instead, forcing providers (including the council) to face the costs of enabling new greenfield sites that are brought forward will sharpen their incentive to proactively make sufficient capacity available in already serviced areas, and price the necessary infrastructure appropriately.

The trigger will also allow a council to have a different sort of conversation with its community, based around how capacity for growth will be provided for and funded, rather than whether it will be provided for. The trade-offs that Auckland Council finds difficult to confront will be unavoidable.

Figure 12.3 summarises how a price-driven trigger to release additional greenfield land might work.

**Ensuring the supply of urban space**

Government should be as supportive as possible of cities delivering on their vision for a future urban form. But it should not accept a failure to deliver sufficient capacity for residential development in the face of growing demand.

Following the establishment of processes to monitor relative prices between developable and non-developable land, the Government should establish a framework for setting an unacceptable price differential that will trigger the release of additional greenfield land, either by National Policy Statement or by legislation.

The Government should establish a threshold for the price difference between developable and non-developable land, beyond which it will ensure additional developable land is made available.
The Government will need to have a mechanism to ensure structure plans for greenfield growth areas are developed, and ensure plan changes can be effected. Although the Minister for the Environment has existing powers to direct changes to plans, those changes must relate to statutorily-recognised functions of councils. So it is likely that new powers, or recognition of these functions, would be required.

R12.10 The Government should establish a process involving the relevant council to bring forward the release of additional greenfield land where relative land prices exceed the threshold set.

The Government will also need to ensure that infrastructure servicing is brought forward in greenfield sites enabled by this framework. This may be by imposing service obligations on core infrastructure providers; tendering directly for services and compelling providers to accept the resulting debt and assets; or other alternative methods of provision. In doing this, the Government should take care to ensure that infrastructure providers are not absolved of the costs of growth in such a way that makes this model of enabling residential capacity more attractive to councils or infrastructure providers. This would incentivise providers to price efficiently and pass on the costs of growth.

R12.11 The Government should develop a process for ensuring that greenfield land brought forward for development as a result of the price threshold being exceeded is serviced with necessary bulk infrastructure, to allow land to be developed.

12.7 Conclusion

Increasing the supply of land for housing is an integral component of addressing housing affordability concerns. This report outlines a range of changes to reform land use rules, planning processes, and local incentives that will measurably improve that supply (see Figure 12.4).
This report also finds that where cities face the most pressing demand for residential space, there can be a disconnect between the local and national interest about to what extent, or how fast, a city should accommodate that demand. New Zealand’s highly devolved regulatory framework in land use regulation means that this tension is currently resolved in favour of the local interest. Councils can do a better job of providing that development capacity, and this will require them to confront trade-offs between the interest of their existing residents and accommodating demand for new housing. The Government can do more to help, through modifications to the planning system and through supporting local UDAs to provide dwellings consistent with local preferences for a city’s future urban form.

But where demand for space continues to be unmet, there are significant negative consequences and lost opportunities that have to be managed at a national level. There is a point at which these harms become so great that the tension between local interests and national interests should be resolved in favour of the national interest. This chapter sets out a mechanism to provide for this.

As outlined in Chapter 1, improving the supply of land for housing is the most important component of addressing affordability concerns. Yet it is not the only component of a comprehensive solution. This report has not considered the capacity of the building industry to respond to increased availability of land and stronger incentives to use it for dwellings, the quality of building regulation, the productivity of the construction sector, or the cost of building materials. As outlined in the Commission’s report on Housing affordability (2012a), these areas also have an impact on housing affordability. However, as discussed in Chapter 3, unless land supply is addressed, any gains in these areas are likely to accrue not to home-buyers but to landowners.
Locally governed UDAs could play an important role here as well. By reducing regulatory risk, a UDA could partner with private sector developers and builders. Doing so would allow them to innovate and demonstrate the effectiveness of different approaches to building communities, and to grow so they can operate on the scale required. Government can support local UDAs in a number of ways to do this, including through providing them with powers to assemble sites for redevelopment.

New Zealand’s fastest-growing cities need to accommodate their rising populations. This means allowing them to grow out and up, and to become denser. However zoning and infrastructure provision that is not responsive to demand contributes to escalating land costs. In turn, this encourages owners to withhold land, and forces builders to construct the most expensive dwellings on those sites that are available. The resulting shortage in housing causes a range of invidious social and economic harms that hurts the wellbeing of individuals, families, communities and the nation. The local winners from that shortage can have incentives to use local political processes to resist more enabling zoning and greater infrastructure provision.

This vicious cycle must be addressed by unlocking land supply in a way that is much more responsive to demand. Councils in our largest and fastest-growing cities should be given every opportunity to accommodate their rising populations, but where they cannot, government should commit to managing land price inflation by establishing a transparent process to ensure that residential land supply is responsive to demand.