

HOUSING

DELIVERING YOUR HOUSING PROGRAMME



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA



THE TREASURY
Kaitohutohu Kaupapa Rawa

Housing New Zealand
Housing New Zealand Corporation

This document has been proactively released. Redactions made to the document have been made consistent with provisions of the Official Information Act 1982.

THE SLIDE PACK COVERS:

This slide pack seeks your feedback on our understanding of your housing priorities and how they could be implemented

Our understanding of your priorities

Our view of the fundamental challenges of the housing system

How your priorities address the key challenges

Our thoughts on implementing your 100-day priorities

- KiwiBuild and the Affordable Housing Authority
- Ban overseas speculators
- Increase state housing supply, stop sales and reduce homelessness
- Healthy Homes Guarantee Bill

Your housing plan for the longer-term

- Ensuring that housing subsidies function as an effective and equitable safety net
- Increasing social housing supply and renewing existing stock
- Using KiwiBuild to deliver houses and help transform the construction sector to address capacity and capability constraints
- Improving the urban planning system
- More effective and efficient provision of infrastructure
- Making life better for renters by addressing security of tenure

YOUR PRIORITIES

From your manifesto commitments (Annex 1) we understand your priorities are:



Increasing the availability of houses to New Zealanders, particularly by progressing KiwiBuild (building more general, affordable and social houses), banning overseas speculators and reducing the effects of investors in the market

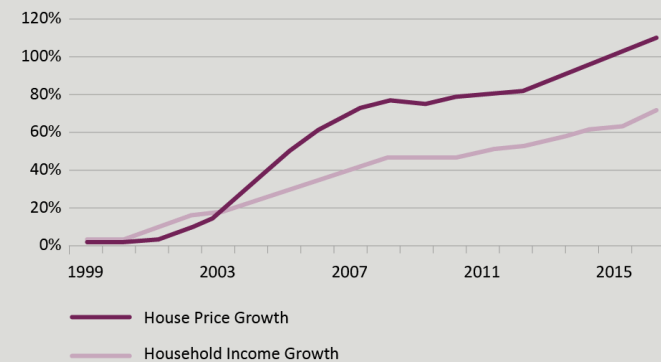


Making life better for renters, particularly in terms of the quality of rental properties and their security of tenure



Supporting those in need, particularly by focusing Housing New Zealand, and taking action on homelessness

Since 2003, house price growth has significantly outstripped income growth



FUNDAMENTAL CHALLENGES

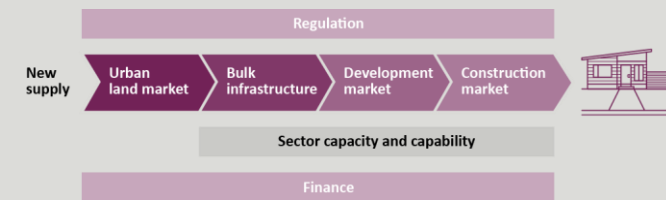
Given the current state of housing (Annex 2) we think the fundamental challenges are:

- 1** There is a lack of houses and houses are not being built quickly enough (supply is not responsive to demand)
 - There is not enough development-ready land
 - Infrastructure provision is not effective and efficient
 - Development is constrained by a lack of opportunities and finance
 - The construction sector is at or near capacity
 - The planning system, including community & Council processes, does not incentivise development
- 2** Some New Zealanders, particularly low income and vulnerable families, are struggling to obtain appropriate housing
 - There is an immediate need to address the supply of social houses, while overall supply responds to demand pressures
- 3** More New Zealanders are renting, and for longer
 - The quality of rental housing needs to be improved

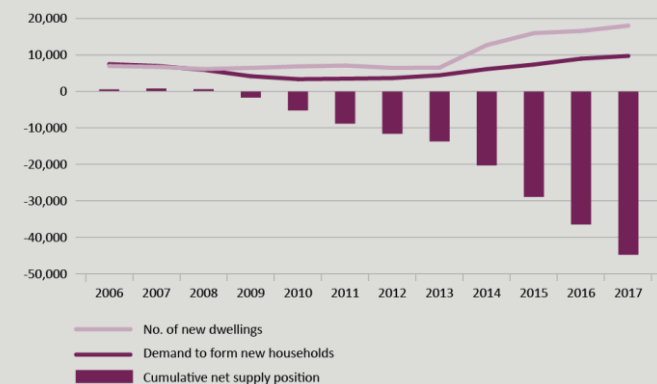
Overcoming these challenges requires:

- long-term actions, such as improving the urban planning system, and short-term actions to improve housing for all New Zealanders (Annex 3).
- Central and Local Government working together, with Iwi partners, and with others.

Increasing supply requires each part of the system to be operating well



There is pent-up demand in Auckland and other high growth parts of New Zealand



YOUR PLAN

In addition to delivering your 100-day priorities we want to confirm your long-term plan

100-DAY PRIORITIES

Support those in need, improve housing supply and make life better for renters

You can make change happen by:

Expanding and renewing social and emergency housing; and developing the homelessness strategy

Initiating KiwiBuild, establishing the Affordable Housing Authority, refocussing HNZC, and improving the quality of rental houses

LONG-TERM WORK

Improving housing supply will have the greatest impact on New Zealanders being able to afford adequate housing

You can make change happen by:

Ensuring that housing subsidies function as an effective and equitable safety net

Increasing social housing supply and renewing existing stock

Using KiwiBuild to deliver houses and help transform the construction sector to address capacity and capability constraints

Improving the urban planning system
More effective and efficient provision of infrastructure

Making life better for renters by addressing security of tenure



KIWIBUILD AND THE AFFORDABLE HOUSING AUTHORITY

KiwiBuild represents not only the injection of 100,000 houses into the market over the next 10 years, but also an opportunity to help transform the construction sector and address its current capacity and capability constraints (Annex 6).

Our experiences with current initiatives can be used to inform delivery of KiwiBuild and a substantial increase in housing supply.

Points for further discussion:

- The benefits of creating the Affordable Housing Authority (AHA) from an amalgamation of the current development functions
- The benefits of urban development powers to improve the effectiveness of the AHA to deliver KiwiBuild
- The commercial model for KiwiBuild, including the respective roles of the public and private sectors
- Potential trade-offs between costs, risks, commercial returns and affordability
- The potential to use KiwiBuild to deliver new social housing supply



See Annex 7
for more detail



INCREASE STATE HOUSING SUPPLY, STOP SALES AND REDUCE HOMELESSNESS

You want to increase state housing supply and focus HNZC on the needs of tenants.

To help us provide you with more detailed advice we would like to discuss:

- The extent to which you want to continue to increase variety and choice in social housing provision
- Your objectives and priorities for social housing, including the total number of social houses you are seeking
- The extent to which you want to target social housing towards the highest need tenants
- The relative importance of fiscal costs on the choices to be made

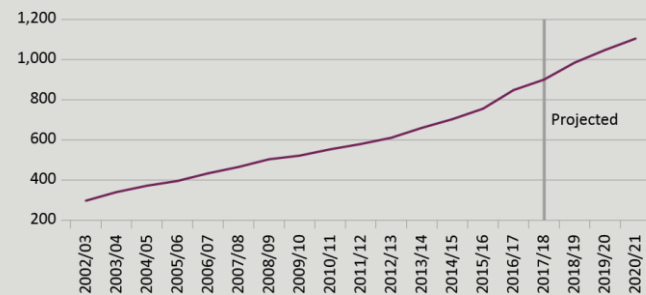
Social Housing Supply Pipeline till 2020

Relative to demand the projected increase in social housing is not sufficient



- CHP Social Houses contracted or approved through MSD's New Supply Programme. MSD is actively pursuing a number of other opportunities through this programme.
- Existing places being redirected into IRRS places through CHP organic growth or as a result of council stock transfers to CHPs.
- HNZ pipeline – note this is still being confirmed throughout the rest of the country. There are 475 confirmed in Wellington, and MSD has requested that HNZ provide 90% of the Purchasing Strategy in areas of demand (870 places).

The cost to the Government of the Income-related Rent Subsidy has increased by 30% in last 3 years



30%
increase



BAN OVERSEAS SPECULATORS FROM PURCHASING EXISTING HOUSES

Demand-side measures, while generally less impactful than supply measures, can help to reduce pressure on housing prices by reducing demand for housing from either overseas persons or companies, or domestic investors (in the case of tax measures).

While you will also receive advice from MFAT on the impacts of changes on our international obligations there some design issues you may wish to consider. For example...

- Should a ban include New Zealanders overseas?

We would also like to talk to you about other potential demand-side measures (such as changes to the bright line test).





THE HEALTHY HOMES GUARANTEE BILL

Addressing housing quality will make a difference to renters.

Māori, Pacific Peoples, and children will benefit from the changes in particular, as they are strongly represented among renting households.

The revised Healthy Homes Guarantee Bill (HHGB), with key changes, will improve health outcomes for tenants. To prepare a supplementary order paper we need to finalise a few issues such as:

- The linkage between the HHGB and your proposed subsidy for tenant's heating costs
- The importance of the efficiency of the heating device / running costs in determining the minimum heating requirements
- The enforcement of the requirements
- Whether you expect to see HNZA and other subsidised social housing providers comply earlier than private landlords?

In addition to passing the Healthy Homes Guarantee Bill work can be progressed on improving renters' security of tenure.



FOUR CROSS CUTTING ISSUES

We have identified four cross cutting issues for your consideration as you work through your priorities and long-term plan

1

The relative priority of the long-term actions versus the short-term actions

2

The roles you see the Government taking in development (eg partner/coordinator/catalyst/doer/developer)

3

The Government's appetite for risk (fiscal, commercial) in implementing its programme

4

The potential cumulative fiscal costs eg land, infrastructure, social houses, accommodation supplements, income-related rent subsidies (IRRS)

NEXT STEPS

- There are a number of Agencies with roles in housing (**Annex 10**) and they have prepared briefings to supplement this slide pack (**Annex 11**)
- There are a number of existing activities that could help you deliver your priorities (**Annex 12**)
- You will also receive cross-Agency briefings on: Social Housing and two fundamental parts of a long-term plan to address housing: the Natural Resources System and the Built and Urban System
- Addressing the fundamental challenges of housing will require action on a number of fronts (eg the urban planning system, infrastructure provision, the role of local government...) and so working across portfolios is crucial.



ANNEX 1: WE UNDERSTAND YOUR PRIORITIES FOR HOUSING ARE...

Increase access to ownership

- KiwiBuild programme will build 100,000 high quality, affordable homes over 10 years, with 50% of them in Auckland. Standalone houses in Auckland will cost \$500,000 to \$600,000, with apartments and townhouses under \$500,000. Outside Auckland, houses will range from \$300,000 to \$500,000.
- Affordable Housing Authority to work with the private sector to get new homes built faster. It will partner with private developers, councils and iwi to undertake major greenfields and revitalisation projects, building affordable homes with KiwiBuild and the private market. These homes will be part of great communities built around parks, shopping centres and transport links.
- Dole for Apprenticeships policy will subsidise employers to take on around 4,000 young people for on the job training in fields including building and construction. KiwiBuild is projected to create 5,000 new jobs at its peak.
- Remove the Auckland urban growth boundary and free up density controls. New developments, both in Auckland and the rest of New Zealand, will be funded through innovative infrastructure bonds.
- Labour's vision is that all New Zealanders have a fair shot at owning a place of their own, and all of our families have a warm, dry, safe home to live in. Working with iwi and other Māori organisations will be crucial to making that vision a reality.

Make life better for renters

- Require all rentals to be warm, dry, and healthy for families to live in by passing the Healthy Homes Bill.
- Invest the money from ending the tax loophole for speculators in grants to help 600,000 families insulate their homes or install a clean, fixed form of heating.
- Increase 42 day notice periods for landlords to 90 days to give tenants more time to find somewhere else to live.
- Abolish "no-cause" terminations of tenancies.
- Limit rent increases to once per year (the law currently limits it to once every six months) and require the formula for rental increases to be specified in the rental agreement.
- Give tenants and landlords the ability to agree tenants on a fixed term lease of 12 months or more can make minor alterations, like putting up shelves, if they pay double bond and on the basis the property is returned to the state it was in at the start of the tenancy.
- Ban letting fees.

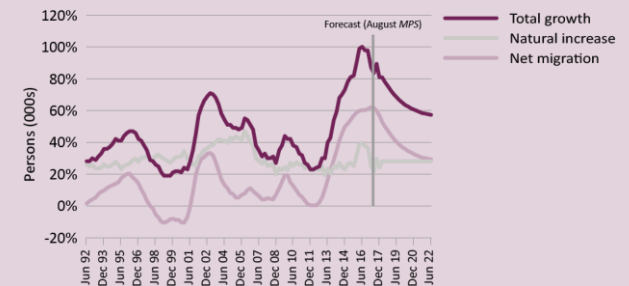
Social mandate to focus on the needs of tenants

- Focus on housing people in need, rather than paying a dividend. This will leave Housing New Zealand more money to invest in housing families and fixing up cold, damp state homes.
- Restore Housing New Zealand's focus on the needs of tenants, rather than just being a glorified property manager, including making Housing New Zealand into a public service rather than an SOE.
- Immediately stop state house sell off and commit to substantially increasing the number of state houses.
- Build a minimum of 1000 additional state houses per year until demand is met.
- Actions on homelessness, including a rollout of Housing First as the primary response to severe homelessness.

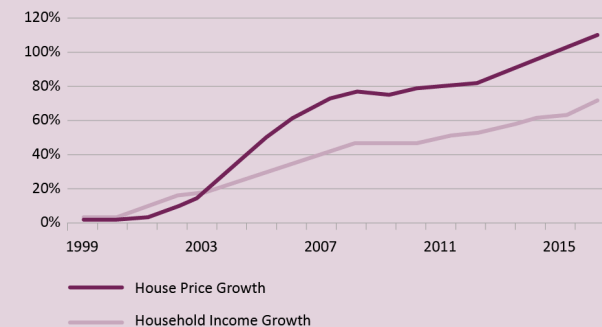
ANNEX 2: STATE OF THE MARKET

- High levels of immigration and fewer departing New Zealanders, along with natural population growth has seen demand for housing outstrip supply.
- Mortgage interest rates are at low levels not seen since the 1960s.
- Net housing credit is now greater than pre-GFC levels.
- Home ownership rates have been falling from the high of 74% in 1991 to 63% at the 2013 census. This is comparable to Australia (65% in 2015) and to Europe (69.4% on 2015).
- House prices have risen more rapidly than incomes.
- The demand for social, emergency and transitional housing has increased, driven by pressure in the overall market, and social factors that impact a household's ability to independently access housing.
- Insecurity of tenure is negatively affecting the outcomes of private renters and is contributing to people not wanting to leave social housing.
- The quality of owned houses is generally better than rented houses.
- The situation is different across New Zealand ([Annex 4](#)).

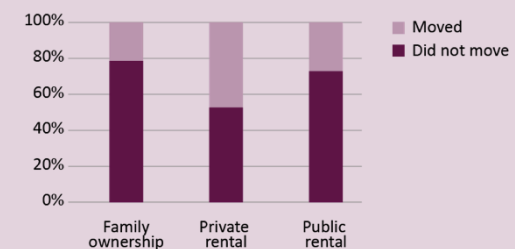
Working age population growth (annual, seasonally adjusted)



Since 2003, house price growth has significantly outstripped income growth



The Residential mobility for families that have young children (between 9 months and 2 years of age) is greatest for those in private rental and least for those who own their home



ANNEX 3: WHO LIVES WHERE: THE DIFFERENT HOUSING SITUATIONS OF NEW ZEALANDERS



INSECURE HOUSING / HOMELESSNESS

EMERGENCY AND TRANSITIONAL HOUSING

SOCIAL HOUSING

SUBSIDISED PRIVATE RENTAL (AS)

PRIVATE MARKET (RENTAL AND OWNERSHIP)

41% of those who have received Emergency Housing financial assistance are single with young children

26% of those in social housing don't receive any benefit

20% of AS recipients are in work

42% of Māori own their own homes, compared to 63% of all New Zealanders

Number of households (June / August 2017)

2,230

64,500

285,000

573,900 (rental)
1,085,700 (ownership)

There is no typical housing situation

Annex 4 shows that the current situation across NZ is highly varied

- 550 receive an emergency housing special needs grant (EH SNG; motel stays)
- 1,670 are in transitional housing
- 56% of individuals receiving an EH SNG are Māori
- 41% of EH SNG recipients are single with child(ren)
- 10% EH SNG recipients stay in motels for more than 9 weeks – these usually have specific housing requirements relating to health and disability issues

- Social housing makes up 4% of total housing, 11% of rental housing
- In addition to affordability factors leading to social housing need include:
 - ageing
 - long-term disabilities
 - significant health issues
 - family violence
 - recent prison release
- 26% do not receive a benefit; 53% receive a benefit, 21% receive NZ Super
- 32% are single with child(ren); 44% are single, and
- 34% have been in social housing for more than 10 years; 20% for 5-9 years

- AS subsidises the housing costs 285,000 families or 11% of the population
- 89% of recipients are renters or boarders (11% are homeowners)
- Of those receiving AS, 67% on main benefit, 13% NZSuper/ Veterans Pension
- 94% of renters receiving AS spend more than 30% of their income on housing costs and 52% spend more than 50%
- 23% of AS recipients also receive Temporary Accommodation Support
- 41% are single adults on a benefit – of these, 85% are in severe housing stress

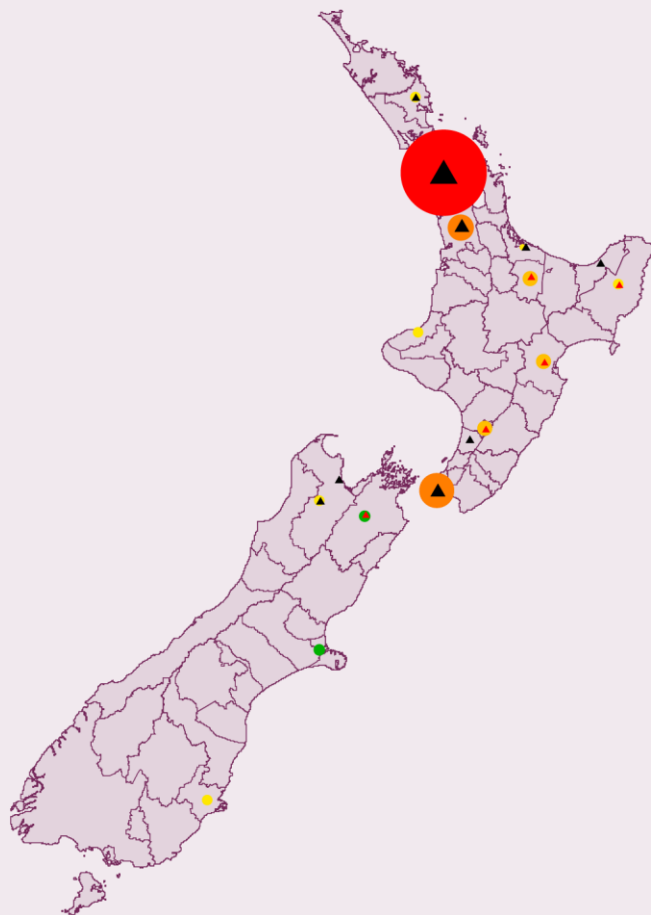
Older, wealthier people are more likely to own than rent

- In 2013, 74% of people over 65 owned their own home, compared to 17% of under-35s
- In 2016, 90% of decile 10 income-earners owned their own home, compared to 59% of decile 2 income-earners

Housing affordability differs by region

- At a national level, 51% of potential first home buyer households would spend over 30% of their income on housing costs if they were to purchase a modestly priced house; and 28% of renter households are currently spending more than 30% of their income on housing costs
- In Auckland, 68% of potential first home buyer households would spend over 30% of their income on housing costs if they were to purchase a modestly priced house; and 30% of renter households are currently spending more than 30% of their income on housing costs

ANNEX 4: THE CURRENT SUPPLY & DEMAND SITUATION ACROSS NEW ZEALAND



The current estimated supply gap / surplus of total houses

- -45,000
- -8,500 to -4,500
- -1,500 to -1,000
- -1,000 to 0
- 0 to 1,300

Social houses sought through the 2016 Purchasing Strategy

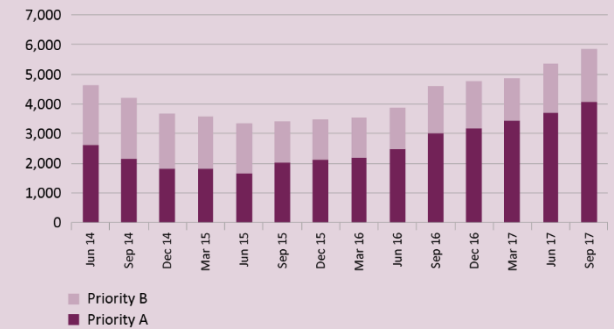
Absolute number signalled in 2016 Purchasing Strategy:

- ▲ 1,000+
- ▲ 400+
- ▲ 50 to 399

Very high per-capita need:

- ▲ None
- ▲ Register more than 140 HH per 100,000 people

The number of households on the Social Housing Register increased 50% in the last year



Who will this target?

- First home buyers by building 100,000 homes over 10 years, with 50 percent of the dwellings to be built in Auckland

Link to your other priorities

- The future of the resource management and planning system
- Better homes for Māori
- Infrastructure bonds
- Growing the building workforce

Relationship to existing initiatives?

- Potential for KiwiBuild to complement and /or subsume a range of existing housing supply initiatives:
 - Hobsonville Point (HLC)
 - Redevelopments of HNZC’s existing portfolio (HNZC and HLC)
 - The Tāmaki Regeneration Programme (TRC)
 - The Vacant and Underutilised Crown Land Programme (MBIE)
 - The East Frame in Christchurch (Ōtākaro)

Other key linkages:

- The future of the resource management and planning system. There is a strong case for beginning with a focus on urban issues (MfE)
- National Policy Statement on Urban Development Capacity (MBIE & MfE)
- Urban Development Legislation (enabling Urban Development Authorities) (MBIE)
- Infrastructure funding : Infrastructure bonds, Housing Infrastructure Fund (MBIE) & Crown Infrastructure Partners (Treasury)

Ingredients – how to make it happen

Land

- Scale requires a mix of Crown, Crown-body, Council & privately owned land
- Green and brown field
- Land aggregation & rezoning
- Treaty considerations

Infrastructure

- Some high-growth councils are unwilling or unable (due to debt ceilings) to invest
- Alternative funding approaches needed
- Coordinated development

Development model

- Options around how responsibilities, costs, risks, & rewards are allocated between public & private sectors
- Tailor to opportunities and constraints for sites
- Working with Iwi

Sector capacity

- Approach needs to overcome current capacity constraints
- Procurement approach to support scale efficiencies / increased productivity
- Trade training /skilled immigration

Demand

- Need to bridge gap between market value, proposed prices & households’ abilities to pay
- Alternative tenures?

Affordable Housing Authority

- Responsible for KiwiBuild delivery
- Requires UDA powers to address planning and infrastructure constraints

Do now (first 100 days)

- Start proactive review of Crown-owned land to identify suitable land holdings and weigh-up competing land use priorities (requires support from LINZ and relevant Ministers)
- Continue acquiring and assembling land for development using existing statutory powers (Housing Act 1955 and Public Works Act 1981), funding sources (Housing Agency Account & Crown Land Programme appropriation) and agencies
- Obtain Cabinet approvals for urban development authorities
- Commence engagement with the Minister(s) for Tertiary Education, Skills and Immigration to progress the KiwiBuild Visa and Dole for Apprenticeships initiatives
- Seek new appropriations for KiwiBuild, the Affordable Housing Authority and to support infrastructure provision (e.g. via Crown Infrastructure Partners or the Housing Infrastructure Fund)
- Commence engagement with key stakeholders (developers, iwi, councils, landowners and infrastructure providers) to explore and test development models and opportunities (including preparing an EOI)

Longer term

- Formally establish the Affordable Housing Authority
- Confirm powers and functions of the Affordable Housing Authority in relation to the role of Urban Development Authorities
- Establish a shared home-ownership scheme (or similar product), subject to Cabinet approval
- Complete and implement a procurement strategy to achieve cost efficiencies
- Utilise KiwiBuild as a mechanism for testing alternative infrastructure funding approaches
- Ramp up land acquisitions

Fiscal implications

- Start-up costs (\$100 million for Affordable Housing Authority & \$2 billion for KiwiBuild)
- Implications for departmental revenues (when transferring administration/ownership of public land)
- Impact on demand for the Accommodation Supplement

Risks

- Current construction sector capability and capacity constraints
- Inability to realise scale efficiencies/construction cost over-runs
- Crown incurs losses on dwelling sales
- Developers unable to access finance
- Price points are challenging for both developers & purchasers
- Crowding out private housing development
- Lost momentum on existing initiatives
- Infrastructure provision

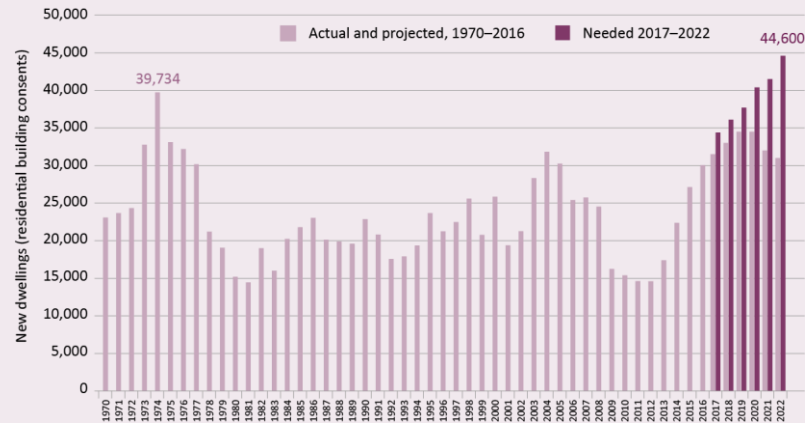
Points for further discussion

- The benefits of creating the AHA from an amalgamation of the current development functions
- The benefits of urban development powers to improve the effectiveness of the Affordable Housing Authority (AHA) to deliver KiwiBuild
- The commercial model for KiwiBuild, including the respective roles of the public and private sectors
- Potential trade-offs between costs, risks, commercial returns and affordability
- The potential to use KiwiBuild to deliver new social housing supply

Further reading

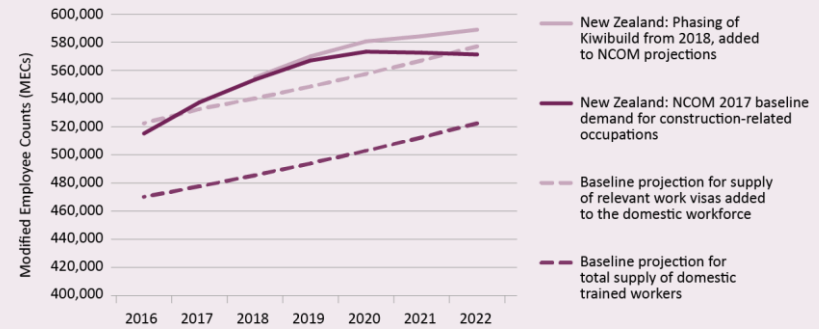
- MBIE, Treasury, MSD and HNZC joint briefings on:
- Implementing KiwiBuild and the Affordable Housing Authority
 - Refocusing Housing New Zealand Corporation: Initial Advice on Implementing Manifesto Commitments

KiwiBuild represents an increase to building levels greater than those of the 1970s



Sources: Statistics New Zealand (YE March 1970–2014), National Construction Pipeline Report 2017 (YE December 2015–2022), Phasing of KiwiBuild and additional Auckland dwellings (YE 2017–2022)

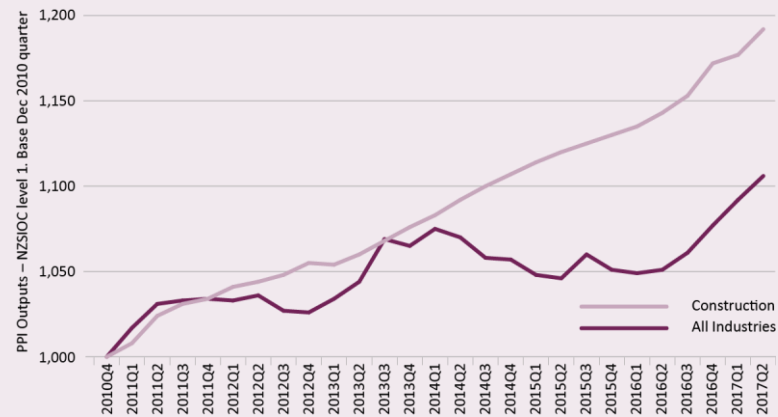
...and will substantially increase demand for labour



Regional labour market stickiness and high housing costs may also reduce the flow of labour to high-demand locations, especially Auckland.

Sources: MBIE National Construction Occupations Model (NCOM), MBIE analysis of education and immigration data

The sector suffers from capacity constraints and low productivity, which has resulted in significant cost pressures in recent years



In response to these constraints, the KiwiBuild programme creates a unique opportunity to support transformative change in the construction sector

Innovation – Large-scale contracts could support a market for manufactured housing (MH) solutions from domestic and international suppliers. MH could reduce time to build each dwelling (by 60%) and total construction costs per dwelling (by 15%).

Skills

- Greater certainty in the sector will support already rising residential building apprenticeship sign-ups.
- A “Dole for Apprenticeships” programme may increase training uptake, but small employer concerns about participant suitability and motivation may be an issue.
- A “KiwiBuild Visa” could have a greater impact, given strong employer demands for skilled overseas construction workers.

Regulation – Council consenting systems, and the problem of liability, will need to be addressed to support the introduction of innovative building systems.

Who will this target?

- Households with high needs, who face barriers to sustaining private housing, including but not limited to affordability
- Housing New Zealand, Community Housing Providers, NGOs who provide emergency housing and support services, and potentially local councils

Link to your other priorities

- Kiwibuild and Affordable Housing Authority
- Better homes for Māori
- Urban design
- Improvements to rental quality and security of tenure
- Your families package, including Accommodation Supplement changes
- Addressing child poverty and other social development priorities
- Improvements to mental health

Relationship to existing initiatives?

- Supply of Social Housing attempts to balance objectives for new supply at pace, and promoting diversity of provision.
- New supply takes time. In the past year (Aug2016 – 2017) there was a net increase of 235 social houses across NZ.
- In 2016 MSD set a target for new social housing supply of 6,400 houses by 2020, which was considered ambitious at the time - but this still will not keep pace with recent demand growth.
- In 2017 HNZN announced significant redevelopment activity in Auckland (1,700 social houses) and Wellington (475 houses) by 2020, and is working on a plan for rest of NZ.
- MSD does currently have an agreed approach to meeting its target, or a funding model for new supply for Community Housing Providers outside Auckland. New supply from CHPs has proved challenging, in part due to issues with the existing funding model.

Ingredients – how to make it happen

Objectives and approach

- Leverage off KiwiBuild to secure supply
- confirm state and transitional housing supply targets (national, local)
- Confirm approach (contribution of HNZN, AHA, Councils and CHPs)
- type of supply (leasing, buy ins, greenfield and brownfield)

Funding model that incentivises supply

- Confirm financing approach for HNZN
- Confirm funding model for CHP supply
- If desired, agree approach to financing increased local government provision
- Confirm overall funding approach, including budget implications

Capability and capacity of supply agencies

- Ensure sufficient capability and capacity within agencies responsible for delivery (HNZN, MSD)
- Ensure clear commitment to target and accountability monitoring for delivery agencies

Asset renewal strategy

- Adjust asset management strategy for HNZN including renewal of existing stock, approach to disposals
- Confirm approach to rehousing tenants for redevelopments (both for new supply and renewal)

Rental subsidy regime for tenants

- Ensure a well-functioning subsidy regime that supports tenants (link to private safety net and wider subsidy changes)
- Confirm policy for eligibility for existing CHP tenants and councils

Do now (first 100 days)

- Confirmation that state housing transfers is no longer Government policy to halt the current sales.
- Confirm whether you would like the business case for renewal in Porirua to continue [Context: The Crown and Ngāti Toa have agreed an MOU that sets out a role in providing state housing in Western Porirua and facilitates the regeneration of Eastern Porirua state housing]
- Issue amended letter of expectation to HNZN covering: dividend policy, sale of state houses, clear social mandate, level of new supply required
- Confirm initial relationship between KiwiBuild and provision of social housing and HNZN and AHA
- Confirm targets and funding approach for increasing social housing supply
- Commence policy work on options for making HNZN a public service department, including moving the eligibility and wait list functions and policy functions into HNZN
- Scope National Homelessness strategy
- Expand Housing First to additional high demand areas (Hawkes Bay, Rotorua, Nelson/Blenheim)
- Decide on accommodation supplement for 2018, including future changes
- Work with Councils on social housing provision including pensioner housing

Longer term

- Review the extent to which existing housing subsidies (Accommodation Supplement, Temporary Additional Support, Income Related Rent Subsidy) function as an effective and equitable safety net (design, level and mechanisms to change)
- Confirm roles and responsibilities for HNZN, MSD and MBIE
- Ability to significantly increase social housing supply is reliant on the measures proposed for KiwiBuild
- Implement system for most vulnerable, including:
 - national strategy on homelessness, including roles and responsibilities
 - system of provision of housing, support services, specialist services
 - expansion of Housing First and other proven support services
 - exit strategy for motel usage

Fiscal implications

- Estimated cost is \$100–\$180m for every 1,000 additional social houses
- New social housing funded by long-term rental stream and additional funding to meet any shortfall
- Current Auckland Housing Programme financed by internal funds and increased borrowing, remaining supply programmes unfunded

Risks

- Capability and capacity of HNZN and CHPs to deliver housing at scale
- Interim reduction in social housing while any redevelopment takes place
- Ensuring sufficient supply of housing places for Housing First

Points for further discussion

- The extent to which you want to continue to increase variety and choice in social housing provision
- Your objectives and priorities for social housing, the total number of social houses you are seeking
- The extent to which you want to target social housing towards the highest need tenants
- The relative importance of fiscal costs on the choices to be made

Further reading

- HNZN Briefing to Incoming Minister
- Cross agency Social Housing BIM
- MSD Briefing on *Housing supply for low income households*

Objective of policy change

This policy aims to reduce housing prices and create more affordable houses by reducing demand for housing from either overseas persons or companies.

Who will this target?

- Impacts are focussed on limiting overseas buyers' activity in the market. A ban on overseas buyers purchasing existing houses could capture foreigners who live and work in New Zealand and are purchasing property to inhabit.

Link to your other priorities

- Establishing a Tax Working Group – consideration of tax measures to help control housing demand would be part of the work of this group

Relationship to existing initiatives?

- Existing Overseas Investment Act (OIA) sensitive land provisions.
- Tax – 2 year “bright line” test in place, changes to depreciation.

Ban overseas buyers from purchasing existing houses

How to make it happen

- Most easily done through amendment of an existing legislative regime and use of existing terms. The choice of regime would be informed by three key choices around how the ban is targeted:
 - What property is captured by a ban on existing homes - agreement on the technical definition has implications on coverage of the ban e.g. is it houses on ‘urban’ land or ‘residential’ land.
 - Who should be banned from acquiring existing homes - could be based on NZ residence, citizenship or other criteria – for example tax residence (a complex test) or duration of residence in New Zealand. Considerations include whether companies, trusts and partnerships are included, and exclusions for Australians or other countries with which we have existing relevant preferential trade agreements.
 - How would a ban be delivered - Two broad approaches: require no check before a property sale proceeds, or require a check before the sale proceeds (either government screening of all overseas buyer transactions, or checks by a conveyancing lawyer). Post-sale auditing would be required for enforcement purposes if checks before sale were not required. A ban could be permanent or temporary, while supply interventions take effect. Various agencies could be used to implement.

Fiscal implications

- Direct administrative costs. A screening of all applications would have higher direct administrative costs than checks at point of sale. Though point of sale costs are borne by seller and purchasers.
- Some possible flow on impacts to the accommodation supplement through shifts to rental.

Risks/trade-offs

- The key trade-off is impact of the policy change versus compliance with New Zealand’s existing and imminent international obligations. The consequences of non-compliance entail legal, reputational and renegotiation (market access) risks. Further advice from MFAT and IR is strongly recommended.
- Restrictions on the ability of overseas buyers to purchase existing housing could have price and availability implications for the rental market. Weaker demand could also reduce the wealth of current homeowners.

Wider considerations

In considering any measures to address demand for housing, it is important to be clear about what the objective of policy change is and what change can achieve.

Supply measures represent the only enduring solution, but demand measures can help to reduce price pressure while supply measures take effect.

A ban on overseas buyers carries relatively significant risks with potentially limited gains for housing affordability. It would be worthwhile considering the parameters of any ban as well as other options that could assist in meeting your objectives.

Two other levers are:

- Immigration settings which restrict the numbers of foreigners granted visas to live and work in New Zealand
- Restrictions on the availability of credit (such as macroprudential restrictions).

None of these measures are costless. For example, any changes to immigration settings may have labour market implications and restrictions on credit are likely to impact all buyers (including first home buyers).

Improved data on levels of overseas investment in existing housing would assist better targeting of policy.

Changes to tax system setting would have allocative and efficiency effects.

Points for further discussion

- Design issues you may wish to consider. For example... Should a ban include New Zealanders overseas? Should Australians be included in any ban (given CER)?
- Other potential demand-side measures (such as changes to the bright line test).

Further reading

- Treasury briefing on *Foreign Ownership*
- Treasury / IRD briefing on Tax

Who will this target?

- The aim is to improve health outcomes for tenants by improving the quality of rental housing stock.
- All landlords, including Housing New Zealand (HNZC) and other social housing providers, would have to ensure that their rental properties meet certain minimum standards for heating, insulation, ventilation and other features of the property that contribute to health and safety.
- Housing quality is poorer in rental properties than owner-occupied. Māori, Pacific Peoples, and children will benefit from the changes in particular, as they are strongly represented among renting households.

Link to your other priorities

- Urban design
- Air quality objectives
- Health objectives

Relationship to existing initiatives?

- The **Residential Tenancies Amendment Act (No 1)** introduced requirements for insulation and smoke alarms for rental properties. The Act requires insulation to be installed by 1 July 2019, while the HHGB gives 5 years from enactment to comply.
- The **Residential Tenancies Amendment Bill (No 2)** proposes three areas of changes to the Residential Tenancies Act to help ensure our tenancy laws better manage methamphetamine contamination, liability for careless damage and the tenancy of unlawful properties. We recommend this Bill continues to progress through Select Committee due to the cost and uncertainty being worn by landlords and tenants until this Bill is passed. Parts of the proposal are highly technical and were not able to be consulted during the policy phase so would benefit from Select Committee and public scrutiny.

Do now (first 100 days)

- Use the revised HHGB produced for the select committee in August 2017 and produce a supplementary order paper to make the following changes:
 - Clarify implementation timing – ie how long landlords, HNZC and community housing providers will have to comply with standards for new and existing tenancies.
 - Shift from prescribed standards to performance-based outcomes – a performance based outcome is more practical to implement than a prescription eg indoor temperature.
 - Set heating standards as regulations – this would be consistent with the existing approach to setting standards for rental properties.
 - Accommodate changes from the Residential Tenancies (Smoke Alarms and Insulation) Regulations 2016 – particularly aligning the HHGB with the existing timeframes and using the same enforcement mechanisms to minimise potential confusion.
- Direct officials to prepare new regulations on minimum heating standards, ventilation draft stopping, drainage. A discussion document could be prepared for public consultation in early 2018.

Fiscal implications

- Implementing minimum standards will create administrative and capital costs for the Crown.
- Community housing providers and Housing New Zealand will face increased costs to comply with any new standards. Income Related Rent Subsidies may not be sufficient to meet these costs. Getting all Housing New Zealand houses to comply with a minimum heating standard of 18 degrees is estimated to be \$80–\$87 million.
- There will also be additional compliance and enforcement costs. We estimated these costs at \$900,000 per annum for a four year implementation period. Additional information and education costs are estimated at \$4 million over the same period which would cover radio, print and targeted social media campaigns.
- For the private market, on average we expect proposed heating standards to add \$2,800 per house. Early analysis estimates 185,000 private rentals will require additional heating at a total cost of \$510 million.
- Further clarification on the composition of proposed standards for draught proofing, ventilation and drainage is required before costs can be more accurately determined.

Risks

- Insulation remains the most effective means of improving thermal performance of a dwelling, therefore we would want to encourage landlords to insulate before installing heating.
- Industry capacity constraints may limit the effective implementation of the policy, particularly for the supply and installation of heating devices.
- There is a risk that there will be confusion amongst stakeholders with multiple RTA amendments.
- Landlords could seek to increase rents to cover the cost of compliance in the short-run. Their ability to do so is moderated by tenants’ ability to pay and the effect of that on market rents.
- Continued increases in standards could, long-term, change landlord composition.

Longer term

- Rethinking tenure to ‘make life better for renters’ – initial advice will be provided before the end of the year

Points for further discussion

- The importance of the efficiency of the heating device / running costs in determining the minimum heating requirements
- The linkage between the HHGB and your proposed subsidy for tenants heating costs
- The enforcement of the requirements
- Whether you expect to see HNZC and other subsidised social housing providers comply earlier?

Further reading

- MBIE briefing on *Healthy Homes Guarantee Bill*

ANNEX 10: ROLES OF AGENCIES IN DELIVERING YOUR PRIORITIES



ANNEX 11: SOURCES OF ADDITIONAL INFORMATION

100 day priorities:

KiwiBuild/ Affordable Housing Authority

MBIE, Treasury, MSD and HNZA joint briefings on:

- *Implementing KiwiBuild and the Affordable Housing Authority*
- *Refocusing Housing New Zealand Corporation and establishing a Housing Commission: initial advice*

State housing

HNZA briefing to Incoming Minister
Cross agency Social Housing briefing to Incoming Minister
MSD briefing on *Housing supply for low income households*

Foreign ownership

Treasury briefing on *Foreign Ownership*

Tax Working Group

Treasury / IRD briefing on *Tax*

Healthy Homes Guarantee Bill

MBIE briefing on *Healthy Homes Guarantee Bill*

Longer term priorities:

Resource Management Act

Cross-agency briefing on the *Resource Management and Planning System*

Infrastructure funding

Treasury briefing on *Infrastructure*

Building sector

MBIE briefing to Incoming Minister
MBIE briefing on *Housing Supply*

Emergency Housing and Social Housing

MSD briefings on:

- *Housing supply for low income households*
- *Options to Redesign Housing Subsidies*
- *Reducing Homelessness*

Rental market

MBIE briefing on *Home Ownership Pathways and Improving the Experience for Those Who Rent*

Māori Housing

MBIE briefing on *Māori Housing*

ANNEX 12: EXISTING ACTIVITIES THAT COULD HELP YOU DELIVER YOUR PRIORITIES

Increasing the availability of houses

- Programmes to increase housing supply, including:
 - Redevelopments of HNZN's existing portfolio (HNZN / HLC)
 - The Tāmaki Regeneration Company (TRC) Programme
 - The Vacant and Underutilised Crown Land Programme (MBIE)
 - The East Frame in Christchurch (Ōtākaro)
 - Transfers programme – Christchurch (status at evaluation of RFP), Tauranga (completed), Porirua (bilateral with the RFR holder (Ngāti Toa).
- HNZN asset management strategy, which is primarily focused on renewing or replacing existing houses.
- HNZN's current Auckland Housing Programme, which will demolish over 1700 properties and build 4300 social and 6700 affordable/market houses for a net increase 5000 houses in next 4 years.
- HNZN's proposed Regional Housing Programme (1100 places).
- National Policy Statement on Urban Development Capacity (MBIE & MfE).
- Infrastructure funding initiatives: Housing Infrastructure Fund (MBIE) and Crown Infrastructure Partners (Treasury).
- MSD's contracting for more Community Housing Provider supply in Auckland.

Making life better for renters

- Introduced requirements for insulation and smoke alarms for rental properties. The Act requires insulation to be installed by 1 July 2019.
- The Residential Tenancies Amendment Bill (No 2) proposes three areas of changes to the Residential Tenancies Act to help ensure our tenancy laws better manage methamphetamine contamination, liability for careless damage and the tenancy of unlawful properties.

Supporting those in need

- MSD and HNZN have been significantly increasing the number of transitional housing places to provide short-term accommodation for people in need, along with tailored social support while they are there.
- MSD is currently implementing Housing First in the main centres, to house those who are homeless, and provide services to address the issues that contribute to their underlying issues.