



# Briefing

Update on the National Policy Statement on Urban Development			
<b>Date:</b>	5 March 2020	<b>Security level:</b>	In Confidence
<b>Priority:</b>	Medium	<b>Report number:</b>	BRF19/20030568 2020-B-06529

Action sought		
	Action sought	Deadline
Hon Phil Twyford <b>Minister for Urban Development</b>	Agree to recommendations in this report	17 March
Hon David Parker <b>Minister for the Environment</b>	Agree to recommendations in this report	17 March

Contact for discussion			
Name	Position	Telephone	1 <sup>st</sup> contact
Caleb Johnstone	Manager, Market and Supply Responses (HUD)	021 843 262	✓
Liz Moncrieff	Manager, Natural and Built Systems (MfE)	022 048 2314	✓
David Shamy	Principal Advisor, Market and Supply Responses (HUD)	09 953 6424	
Steph Gard'ner	Senior Policy Analyst, Urban and Infrastructure Policy (MFE)	022 076 4490	

Other agencies consulted
The Treasury, Ministry of Transport

## Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify)  _____
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Comments

**Date returned to MHUD:**

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# Briefing

## Update on the National Policy Statement on Urban Development

**For:** Hon Phil Twyford, Minister for Urban Development  
Hon David Parker, Minister for the Environment

**Date:** 5 March 2020

**Security level:** In Confidence

**Priority:** Medium

**Report number:** BRF19/20030568  
2020-B-06529

### Purpose

1. To update on key areas in the National Policy Statement on Urban Development (NPS-UD) and to inform discussion with you on 17 March 2020. This will provide context ahead of a full recommendations package to be provided on 18 March 2020, including a Recommendations Report, Section 32 Analysis, Cost Benefit Analysis (CBA) and full draft NPS-UD policy.
2. Advice is presented on updates on three key policy areas (Annex A), findings of a draft CBA in relation to competitive land markets, and the anticipated impact of the NPS-UD on some Regional Policy Statements (RPS) provisions.

### Recommended actions

3. It is recommended that you:

1. **Agree** to discuss the content of this briefing and slide pack (Annex A) on 17 March 2020

*Agree / Disagree*

Caleb Johnstone  
**Manager, Market & Supply Responses (HUD)**

4/3/2020

Hon Phil Twyford  
**Minister for Urban Development**

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Liz Moncrieff  
**Manager Natural and Built Systems (MfE)**

4/3/2020

Hon David Parker  
**Minister for the Environment**

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## Background

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4. On 5 February 2020 we provided an update on preferred policy options for the NPS-UD [BRF19/20010543 and 2020-B-06424 refers]. This outlined preferred policy approaches and areas that required further policy work and engagement to finalise.
5. On 11 February you sought assurance that the NPS-UD will support competitive urban development markets. You also asked how the NPS-UD relates to RPSs and in particular, whether these could disallow non-contiguous development under the proposed NPS-UD. This briefing presents analysis on these areas.
6. Since meeting with you officials have been progressing further analysis and drafting on some of the policy approaches, including those that best enable competitive urban development markets. The slide pack in Annex A also outlines some key areas of policy we would like to discuss on 17 March, before finalising the recommendations pack on 18 March. These areas include:
  - *Intensification* – further work has been undertaken with Ministry of Transport (MoT) to land definitions and policies to better ensure policy intent is implemented
  - *Responsive planning* – we have linked this policy more strongly to ‘well connected transport corridors’ in line with the initial Cost Benefit Analysis report findings, feedback from MoT and New Zealand Transport Agency (NZTA) and to ensure that the policy produces positive urban development outcomes
  - *Geographical targeting of policies* – we propose broadening targeting to three tiers of cities, and relevant policies have been identified for each tier
7. On February 11 you also asked that we undertake further analysis on proposed margins in the NPS-UD. This work is underway including analysis of:
  - The rigour of a range of available indicators of house price distortions, that could be used to trigger the need for plans and infrastructure to enable more development
  - The likely impact of options to increase competitiveness margins by 5 or 10 percent in the short and/or medium term, in response to such a trigger. This includes the impact in terms of the councils affected, the quantity of additional capacity they would need to release, and possible plan changes and additional infrastructure likely to be needed.
8. We are working on analysis of margins with the Treasury, Department of Internal Affairs and the Office of the Auditor General and will present analysis alongside the recommendations package on 18 March 2020.

## Initial Cost Benefit Analysis finds the proposed NPS-UD will support competition in urban land markets

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9. The proposed NPS-UD forms part of the Urban Growth Agenda (UGA) which aims to address the fundamentals of land supply, development capacity, and infrastructure provision to create the conditions for the market to respond to growth and bring down the high costs of urban land.
10. A CBA has been provided by PwC and indicates that the NPS-UD would support these objectives by improving the competitive nature of urban land markets, the affordability of housing, and the quality of urban outcomes while minimising external costs and maximising external benefits. Officials are continuing to review the CBA and a full copy will be provided as part of the policy recommendations package on 18 March 2020.
11. Initial findings show that the NPS-UD will cumulatively support competitive land markets, with each policy reinforcing the other. However, three policies proposed by the NPS-UD are at the heart of competitive land markets: intensification policies, responsive planning policies and car parking policy. High-level CBA findings on these policies are outlined below.

*Intensification policy will increase land use flexibility and decouples land prices from dwelling prices*

12. The intent of intensification policies in the NPS-UD is to improve land use flexibility and the competitiveness of land markets. The CBA finds the benefits of urban intensification are driven by an increase in the responsiveness of housing supply arising from removal of regulatory barriers, particularly in areas where benefits of intensification can be achieved efficiently (for instance, those close to public transit nodes).
13. Importantly, the NPS-UD policies would work towards a decoupling of house prices from land prices by allowing for a greater intensity of development in high-demand areas, alleviating scarcity of building space in response to scarcity of land. Proposed policies are therefore most useful in areas of high demand and around areas of rapid transit (and improvements in rapid transit) because accessibility effectively concentrates amenity. From a policy perspective, this reiterates the importance of focusing supply flexibility around nodes of rapid transit as proposed in the NPS-UD.
14. The CBA estimates that the benefits of intensification policy will accrue to renters, new entrants and future generations, who enjoy lower house prices and greater accessibility to employment, together with agglomeration benefits.

*Responsiveness policies are supported by intensification policies and well-functioning and connected greenfield development*

15. The intent of the responsiveness policy in the NPS-UD is to improve land use flexibility and the competitiveness of land markets in areas that fall within a potential labour market catchment area but are not currently zoned for urban development. Like intensification policies, this aims to ensure supply is more responsive to price changes. The impact of this policy is likely to play out most prominently in greenfield areas.
16. Importantly, the CBA finds that responsiveness policies and intensification policies, as proposed under the NPS-UD, can have a compound effect on consumer surplus in housing markets. If growth pressures are strong enough, greenfield expansion can complement intensification policies. If supply rigidities are relaxed in the city centre holding all else constant, some demand for outward expansion will be relieved. However, if urban limits are also constraining, relaxation of the urban limits can also create benefits (by allowing residents to trade off a longer commute for more space for instance).
17. The relative magnitude of impact of the policy is specific to individual cities and locations within each city. In certain circumstances, high quality greenfield expansion can create significant levels of economic benefit by reducing housing costs in areas where infrastructure costs and congestion externalities are low. However, low-quality greenfield developments could create more costs than affordability benefits.

*Minimum car-parking*

18. The NPS-UD seeks to shift the provision of car parking from minimum car parking requirements (MPRs) to a market-based approach. This would help ensure that parking supply matches demand at a price that reflects the scarcity of urban land and building space to enable alternative more valuable land use. Empirical estimates through the CBA show that MPRs are preventing efficient allocation of scarce land and building space, depressing land values while imposing an effective tax on floor area. The observed effect is most severe in Auckland, Queenstown, and Hamilton. No estimate was possible for Tauranga due to lack of data.
19. Removing MPRs in mixed-use and commercial areas carries significant net benefits. Assuming councils will need to take on additional parking management activities to mitigate congestion effects of lower parking provision, initial indicative CBA calculations show that benefits outweigh costs by a multiple ranging from 2 to 13. Our preferred recommendation will therefore include direction that strongly encourages all local authorities to manage the supply of car parking in urban environments through parking demand management plans, and that direction prohibiting car parking minimum requirements in district plans is applied across the entirety of Major Urban Centres - not solely in areas of intensive development.

20. As the NPS-UD will remove the ability of councils to set minimum car parking requirements in district plans, you also asked officials to ensure that councils will be given clear guidance on how to effectively manage car parking when the NPS-UD is gazetted. MoT is currently working with NZTA to ensure that this guidance will be provided.

## **Regional policy statements restricting non-contiguous development would not meet NPS-UD requirements**

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21. In our previous meeting, you requested officials provide further information about whether NPS-UD policies would be strong enough to require RPS's to be reviewed, in respect of policies that could potentially limit non-contiguous development.
22. Boffa Miskell was contracted to provide an independent review of the NPS-UD and RPS provisions that could potentially constrain non-contiguous development. Relevant provisions within operative Regional Policy Statements from Hawkes Bay, Auckland, Wellington, Canterbury, Bay of Plenty, and the partially operative RPS for Otago were assessed.
23. Their analysis found that proposed NPS-UD provisions would be effective in overriding and requiring amendment of current RPS objectives and policies that would constrain non-contiguous development. Specifically, the RPS provisions assessed would be contrary with the responsive planning provisions in the NPS-UD and would require amendment to ensure RPS were giving effect to the NPS-UD. Officials will test this analysis with Crown Law to inform final policy recommendations in 18 March 2020.

## **Other areas of work**

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24. At our previous meeting you asked for analysis of Christchurch's housing market in relation to population growth. This work is underway and will be presented on 18 March.
25. We are also working with teams responsible for other national direction to ensure interactions between national policy statements are aligned. This will inform the final recommendations report package.
26. We are continuing to work with Te Arawhiti and Te Puni Kōkiri to ensure the NPS-UD will contribute to positive outcomes for Māori in urban environments.

## **Next steps**

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27. As outlined in February we are aiming for gazettal of the NPS-UD in July 2020. The timeframes for the gazettal of the NPS-UD are outlined below:
- March 11- Meet to discuss the contents of this brief
  - March 18- Full recommendations package provided, including our report back on margins
  - March 18- Report back on Christchurch housing market
  - Mid-April- Draft Ministerial consultation pack delivered (Cover briefing, Draft Cabinet Paper, Regulatory Impact Statement, Section 32 and NPS-UD)
  - June- Final Cabinet Paper (Cover briefing, Cabinet Paper, Regulatory Impact Statement and NPS-UD).
  - July 2020- Gazettal of the NPS-UD.
28. We will also arrange for a meeting with Minister O'Connor to discuss interactions with other National Policy Statements, particularly in relation to Highly Productive Land.

## **Annexes**

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Annex A – slide pack on key areas of NPS-UD