Submission

By

THE NEW ZEALAND INITIATIVE

To the Minister of Housing, the Minister Responsible for the RMA Reform, and the Ministry of Housing and Urban Development and the Ministry for the Environment

on the Government discussion document

Going for Housing Growth

Pillar 1: Freeing up Land for Urban Development

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1. EXECUTIVE SUMMARY

The Problem: Scarcity Rents Remain Intact

1.1 Housing affordability ratios have improved recently through a combination of factors. Government upzoning policies have had demonstrable impact in pockets, but the aggregate supply response remains limited. Meanwhile, weak economic conditions (higher interest rates and rising unemployment) have created a substantial demand shock. Under such conditions (modest supply alongside major demand downturn) artificial scarcity still drives elevated prices to unaffordable levels. This suggests structural supply constraints remain substantial.

1.2 True affordability requires stripping out scarcity rents (price mark-ups caused by planning constraints). We have not achieved that yet. Our planning system still tightly rations development rights. The underpinning structural problems remain unresolved and promise to bite with economic recovery and returning demand. The social cost is enormous.

Our Top Recommendations for Pillar 1

1. Decouple spatial planning from council finance and infrastructure delivery

- Shift from 'proof of infrastructure readiness' to 'confidence in delivery'
- Let Tier 1 planning protect corridors without requiring immediate funding commitments

2. End capacity-based rationing of development rights

- Remove demand forecasting as gating mechanism for zoning permissions
- Use modelling for monitoring only, not to constrain where development occurs

3. Separate spatial planning (Tier 1) from land use regulation (Tier 2)

- Tier 1: Reserve infrastructure corridors 50+ years ahead (the skeleton of the city)
- Tier 2: Template zoning with generous envelopes, not case-by-case discretion

4. Adopt a standardised template zoning system

- Set permissive, maximum envelopes for land use that proxy management of gross externalities (otherwise not efficiently tractable through other mechanisms) and flexible with infrastructure capacity upgrades
- Development permitted by default unless material negative impact on neighbours

5. Legally entrench permissive planning rules with self-corrective triggers

- Include 'bankable rules' that automatically upzone when price signals show scarcity
- Enable leapfrogging without adjacency requirements

The Solution: Credible Threat of Entry

1.3 Abundance alone is not enough. Cities can have generous zoning but still suffer high prices if that capacity can't be activated. Real threat of entry requires developers and communities to have both the right and the ability to act when councils will not or cannot.

1.4 Without empowerment, permissions are lip service. Enabling development on paper while denying the finance tools (Pillar 2) and governance rights (Pillar 3) to actually build creates only theoretical supply: options that exist in plans but cannot be exercised in practice.

Why Reform Is Like a Three-Legged Stool

1.5 The Government's three-pillar structure correctly recognises that all three legs must work together or the whole system collapses:

- *Pillar 1* (Planning): Set rules that allow abundant development
- *Pillar 2* (Finance): Provide money independent of council budgets
- *Pillar 3* (Governance): Give those that benefit power to organise and deliver

1.6 Remove any leg and the system fails:

- *Missing Pillar 2:* Generous zoning exists but nothing gets built, no money for infrastructure
- *Missing Pillar 3:* Permission and money exist, but councils control delivery and resist growth that costs them but benefits others
- *Missing Pillar 1:* Communities can organise and fund projects, but face prohibitive costs because corridors weren't reserved early

Critical Innovation: Expand Scope of Pillar 3

1.7 Our most important recommendation is that Pillar 3 must go beyond council incentives to create genuine 'right of assembly' that enables beneficiaries of growth to bypass council veto.

1.8 This matters because, even with permissive zoning (Pillar 1) and finance tools (Pillar 2), development stalls if councils alone control approvals and resist projects that cost them money but benefit others.

1.9 The solution is to allow communities that benefit from development to form special purpose governance entities with power to:

- Raise finance independently of council budgets
- Deliver infrastructure and capture value increases to pay for it
- Coordinate land assembly and development without council gatekeeping

1.10 This intervention is based on proven governance models. New Zealand operated 453 special purpose entities critical for delivery of infrastructure before 1989 reforms, demonstrating that statutory, boundary-based governance coordinating multiple property owners works.

Key System Innovations – Principle of Congruence (The Foundation)

1.11 The core fix is to align those who benefit from development, those who lose from it, and those who approve it. This principle harnesses natural incentives to create value while internalising social costs.

1.12 A key current problem is that councils bear the costs of accommodating growth while central government captures tax revenue from that growth. This misalignment creates resistance in councils, and makes it harder to overcome neighbourhood reluctance to enable growth.

1.13 Pillar 3 fixes this through special purpose entities that ensure those who gain from development also drive and fund it. When beneficiaries can organise to deliver projects themselves, it eliminates the political mismatch that blocks progress and legitimises infrastructure paying for itself through value uplift.

Key System Innovations – Template Zoning (Reducing System-wide Transaction Costs)

1.14 The purpose of land regulation is to strip out transaction costs across the development system where other mechanisms (like private ordering) is impractical, but not to replace market processes or control outcomes.

1.15 One major problem with the current system is discretionary consent processes that socialise decisions about what we are allowed to do with the land we own. This creates uncertainty, delays, and rent seeking opportunities that increase the cost of development for everyone.

1.16 Template zoning has proven an effective overseas to translate its purpose into practice, if you:

- Set permissive, maximum envelopes for land use that proxy management of gross externalities (otherwise not workable) but flexible with infrastructure capacity upgrades
- Allow any use that does not negatively and materially impact neighbours
- Permit development by default (no queuing or case-by-case justification)
- Eliminate negotiation costs and delays through clear, predictable and upfront rules

Key System Innovations – Mirror Principle (Making Infrastructure Self-Funding)

1.17 When public infrastructure increases land value, that increase helps pay for the infrastructure. Compensation for any land taken can be offset by betterment (land value increases from public investment) to remaining land. Infrastructure can be more or less self-funded rather than a council budget burden. New Zealand has a precedent in road building (*Public Works Act 1981* and *Local Government Act 1974*). There is also unrealised potential for such innovation today: National direction (the NPS-UD) requires upzoning near rapid transit corridors, which a more commercially oriented KiwiRail could take advantage of to fund transit stations, by selling development rights above those stations.

Tier 1 vs Tier 2 Planning (Ending Integrated Management)

1.18 A major barrier to progress is the current problem to conflate distinct planning practices into one process that tries to plan, fund, and regulate everything simultaneously, creating gridlock.

- *Tier 1 - Spatial Planning:* Reserve space for future infrastructure decades ahead—like drawing the skeleton of a city. Protects options without spending money.
- *Tier 2 - Land Use Regulation:* Simple, predictable rules for what can be built where. Templates, not discretion.

Bottom Line

1.19 We can choose a planning system that rations development through bureaucratic control, or one that offers abundant choice and real economic value to residents by empowering them to create value (develop) and compete with others on the value (floor space) they provide.

1.20 True affordability comes from eliminating scarcity rents, not from economic downturns that suppress demand.

1.21 New Zealand needs competition in urban land markets to restore housing affordability and economic dynamism. This requires wholesale system replacement that gets all three pillars right, which would provide the platform for sustained, affordable urban growth.

2. INTRODUCTION

2.1 This submission responds to the Government's public consultation on the *Going for Housing Growth Discussion Document* (**The Discussion Document**) released 18 June 2025, which inaugurates the final phase of the Resource Management Act (RMA) reform and signals the wholesale replacement of New Zealand's current urban planning system.

2.2 The New Zealand Initiative (**The Initiative**) is a Wellington-based public policy think tank supported primarily by major New Zealand businesses. The purpose of the organisation is to undertake research to contribute to the development of sound public policies in New Zealand to promote an open, prosperous, and fair society underpinned by the rule of law, strong institutions, and well-defined property rights, along with a competitive and dynamic economy.

The Government's Reform Programme

2.3 The Government's *Going for Housing Growth* reforms aim to improve housing affordability by significantly increasing the supply of developable land both within existing urban areas and at their fringes. These policy and regulatory changes are designed to address excessively high land prices – and associated negative impacts on society – by removing barriers to development. The overall reform is structured around three interdependent pillars to support urban growth:

- Pillar 1: Freeing up land for urban development
- Pillar 2: Improving infrastructure funding and financing
- Pillar 3: Providing incentives for communities and councils

The Government's Discussion Document for Pillar 1

2.4 The *Discussion Document* just released focuses on proposals for Pillar 1, most notably through removing unnecessary planning barriers. In the Government's framing, Pillars 1 through 3 are intended to work together in a mutually reinforcing package, with packages 1 and 2 being designed in parallel to create a new resource management system for New Zealand that supports competitive urban land markets and enables growth in our cities.

The New Zealand Initiative's Position

2.5 The Initiative agrees with the Government that New Zealand's housing affordability crisis is explained by the presenting problem of 'artificially' high land prices (discussed further in paragraphs 2.2 – 2.5). The Initiative also welcomes the signalled overall direction of travel and the ambition to replace the existing planning system entirely to establish a new approach to urban planning that enables competitive urban land markets as the remedy.

2.6 At the same time, there remains a material gap between this stated objective and the Pillar 1 proposals, which continue to embed the prevailing urban planning paradigm and associated practices that constrain availability of land and development options, and so pre-empt the possibility of Pillar 2 (finance) and Pillar 3 (local governance) being effective.

2.7 Pillar 1's aim to create abundant development options is commendable and necessary for competition. However, without credible threat of entry it is not a sufficient condition to compete away 'scarcity rents' (discussed further in paragraphs 2.2 – 2.5). Threat of entry is needed to discipline land prices across the entire urban area by pinning down prices at the urban periphery, linking them to their opportunity cost in rural land.

2.8 Pillar 2 (infrastructure) and Pillar 3 (local governance) are critical to enabling that threat of entry. For this reason, reform proposals for Pillar 1 must, on the one hand, avoid replicating planning practices that ration development options, thus undermining Pillars 2 and 3, while, on the other hand, enabling Pillars 2 and 3 to do the work they need to.

2.9 Each pillar plays an important role. They are each individually necessary and only jointly sufficient. In sum, credible threat of entry into urban land markets depends on stronger rights:

- 'of property' – permitting more development options as of right (Pillar 1)
- 'to finance' – ensuring access to funding and financing mechanisms not gated by captured, public institutions (councils) or constrained by their balance sheets (Pillar 2), and
- 'of assembly' – enabling beneficiaries of growth to autonomously organise around projects through dedicated, special purpose governance structures (Pillar 3), especially when councils are unable to provide.

2.10 In principle, The New Zealand Initiative strongly supports the Government's focus on eliminating unnecessary planning barriers under Pillar 1 and the broader objective of full system replacement to enable competitive urban land markets.

Pillar 1 Recommendations

In response to the collective proposals for Pillar 1, The Initiative submits that reform should proceed, subject to the following recommendations to ensure Pillar 1 creates abundant development options and sets up Pillars 2 and 3 for success, thus not undermining their ability to introduce threat of entry into urban land markets:

1. *Let go of 'integrated management' by decoupling spatial plans (Tier 1 planning) from council finance* – shift away from 'proof of infrastructure readiness' to 'confidence in delivery'. This requires Pillar 2 to liberalise access to finance by introducing new funding and finance mechanisms that are independent of council balance sheets (e.g. tax increment financing, value capture tools, revenue bonds).

2. *Adopt a narrow, grid first model of spatial planning* – orient towards 'broad public capability' needs, such as establishing corridors and nodes at a metropolitan areas scale (Tier 1 planning) to prepare decades in advance for development, separated from zoning (Tier 2). Defer lower level, detailed investment plans of councils and dedicated project communities (Pillar 3) to later stages. To make urban expansion fiscally manageable (i.e., cost-efficient and affordable), ground this function in sound property rights, involving both compensation and betterment.

3. *Abandon capacity forecasting as a basis for zoning* – cease using demand modelling or yield projections to ration land release. Instead, default to permissive zoning across the entire current and future urban footprint (Tier 2 planning) as a distinct and independent type of planning practice from spatial planning (Tier 1). Zoning envelopes should function as proxies for externality management, not as tools to allocate or predetermine development outcomes.[1]

[1] These envelopes must be sufficiently generous, constrained only by demonstrable, material limits such as infrastructure capacity thresholds or environmental bottom lines. Where such limits apply, they should act as real and final boundaries: development is constrained because proceeding would breach a legitimate constraint. However, these constraints are not hard barriers in the institutional sense: communities, councils, or delivery entities must retain the ability to invest to expand capacity and unlock further development within the same permissive zoning framework. Conversely, where no such constraint applies,

4. *Implement a standardised zoning template system grounded in sound property rights logic and allocative efficiency* – zoning (Tier 2 planning) should exist to strip out transaction costs where private ordering or collective action mechanisms are impractical, not to replace market processes. Templates should define clear, permissive envelopes that allow the market to discover what density and mix is needed within real limits.[2]

3. THE CASE FOR REFORM

Government Intent to Replace the Planning System

3.1 The government intends to replace the whole planning system to shift its *modus operandi* from rationing development opportunities through a 'predict and provide' model (which 'only provides what it predicts') to facilitating abundant development opportunities through open-ended and market-responsive planning practices. The former operates in a controlled world, enforcing certainty; the latter operates in a dynamic world, responding nimbly to alternative possibilities.

From Uncompetitive to Competitive Urban Land Markets

3.2 New Zealand's current urban land markets are fundamentally shaped by a planning system that rations development rights. Councils, operating under integrated management frameworks, limit when and where land can be developed by tying zoning, infrastructure planning, and financial decisions into a single, tightly controlled process. This model systematically produces uncompetitive land markets, in which supply is artificially constrained and prices are elevated across the entire urban area.

3.3 At the heart of this distortion lies the concept of land rents. In a normal, well-functioning market, land prices vary naturally but reflect the genuine economic value that land provides, such as proximity to jobs, transport, amenities, and other services. These factors give rise to 'natural' land rents that vary across space.

3.4 But when development rights are scarce and entry is tightly restricted, these rents are inflated well beyond their natural level. The result is 'extractive' rents: high prices not because the land is inherently more valuable, but because regulation has made alternatives unavailable.

3.5 The effect is an 'artificial' lift of the entire level of urban land prices across the urban footprint, making land expensive not just at the fringe but everywhere. Buyers and developers end up paying more than the actual marginal cost of production (the real cost of servicing and developing a site) because they are forced to bid for artificially scarce development options.

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all development should be enabled as of right, with no residual requirement to justify or offset development elsewhere, because no further enablement should be necessary: the zoning envelope already provides it.

[2] Within these limits, any activity should be permitted so long as it can net-beneficially manage its material externalities. This means not only that the social cost of enabling the activity is lower than the cost of prohibition, but also that the spillovers can be addressed through lower-cost mechanisms than zoning itself – mechanisms that enable voluntary, value-generating bargains between affected parties, either directly or through the collective action of communities that benefit from growth. Zoning should intervene only where such mechanisms are unworkable or have too high transaction costs to be worthwhile. Properly designed, such a system complements the market rather than substitutes for it, facilitating decentralised decision-making, reducing regulatory friction, and empowering entry critical to competitive urban land markets.

This disconnect between price and production cost undermines affordability and market responsiveness. It creates 'scarcity' rent, which is extractive.

3.6 By contrast, less regulated competitive urban land markets benefit from more abundant development options, lower barriers to entry, and clear, predictable rules (keeping transaction costs of land use and development low). These conditions allow new entrants (more landowners) to supply land for houses at lower prices (at or near marginal opportunity cost). The presence of less constrained competition puts downward pressure on prices and accelerates delivery.

3.7 A significant body of domestic and international work has incontrovertibly established these dynamics:

- The New Zealand Productivity Commission's *Using Land for Housing*[3] and *Better Urban Planning*[4]
- The Housing Technical Working Group's (a joint initiative of The Treasury, Ministry of Housing and Urban Development and Reserve Bank of New Zealand) three papers *Assessment of the Housing System*,[5] *What Drives Rents in New Zealand? National and Regional Analysis*,[6] and *Analysis of Availability of Land Supply in Auckland*[7]
- The New Zealand Urban Land Markets Group's *A New Approach to Urban Planning*[8] and *A New Approach to Funding and Financing Our Cities*[9]

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[3] New Zealand Productivity Commission, *Using Land for Housing* (Wellington: New Zealand Productivity Commission, 2015), https://www.treasury.govt.nz/publications/using-land-housing-productivity-commission-inquiry-material-2014-2015

[4] New Zealand Productivity Commission, *Better Urban Planning* (Wellington: New Zealand Productivity Commission, 2017), https://www.treasury.govt.nz/publications/better-urban-planning-productivity-commission-inquiry-material-2015-2017

[5] Housing Technical Working Group, *Assessment of the Housing System: With Insights from the Hamilton–Waikato Area*, (Wellington: New Zealand Treasury, 18 August 2022), https://www.treasury.govt.nz/publications/jp/assessment-housing-system-insights-hamilton-waikato-area.

[6] Housing Technical Working Group, *What Drives Rents in New Zealand? National and Regional Analysis*, (Wellington: New Zealand Treasury, August 2023), https://www.treasury.govt.nz/publications/jp/what-drives-rents-new-zealand-national-and-regional-analysis.

[7] Housing Technical Working Group, *Analysis of Availability of Land Supply in Auckland: Results from Improved Land Efficiency Indicators and Discussion on Their Use for Policy*, (Wellington: New Zealand Treasury, 28 November 2024), https://www.treasury.govt.nz/publications/media-statement/how-restricted-land-supply.

[8] Urban Land Markets Group, "A New Approach to Urban Planning," *Economic Policy Centre, Urban and Spatial Economics Hub*, Policy Paper No. 002 (Auckland: The University of Auckland Business School, 2021), https://www.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/Economic-Policy-Centre--EPC-/USEPP002.pdf

[9] Urban Land Markets Group, "How We Supply Infrastructure Makes Housing Unaffordable: Introducing a New Approach to Funding and Financing Our Cities," *Economic Policy Centre, Urban and Spatial Economics Hub*, Policy Paper No. 003 (Auckland: The University of Auckland Business School, 2021) https://www.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/Economic-Policy-Centre--EPC-/USEPP003.pdf

- Domestic evidence in urban economics, such as Greenaway-McGrevy and colleagues, *The effect of upzoning on house prices and redevelopment premiums in Auckland*,[10] *The Impact of Upzoning on Housing Construction in Auckland*,[11] and *Can Zoning Reform Reduce Housing Costs? Evidence from Rents in Auckland*,[12] and

- International work and evidence from scholars grounded in urban economics, such as Shlomo Angel (*Planet of Cities*),[13] Alain Bertaud (*Order without Design*),[14] and Alan Evans (*Economics, Real Estate, and the Supply of Land* and *Economics and Planning*),[15] among many others.

3.8 This body of work forms part of a broader evidence base that has demonstrated the relationship between regulatory barriers created by planning systems and increased prices and rents mediated by the degree to which land markets are competitive.

The Social Cost of Our Current Planning System

3.9 The social cost of uncompetitive land markets is substantial and well documented. They include government support for homelessness and lower income housing cohorts, negative health outcomes and child poverty – outcomes which disproportionately affect low-income earners, disadvantaged population groups and younger generations.[16]

3.10 Uncompetitive land markets also negatively impact the wider economy, through reduced productivity, poor performance of urban centres due to lack of competitive cities, shallower labour markets with smaller talent pools, and poorer job matching due to high switching costs, among many others that cascade through society.[17]

3.11 Most importantly, uncompetitive land markets:

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[10] Ryan Greenaway-McGrevy, Gail Pacheco, and Kade Sorensen, "The Effect of Upzoning on House Prices and Redevelopment Premiums in Auckland, New Zealand," *Urban Studies* 58, no. 5 (2021): 959–976, https://doi.org/10.1177/0042098020940

[11] Ryan Greenaway-McGrevy and Peter C.B. Phillips, "The Impact of Upzoning on Housing Construction in Auckland," *Journal of Urban Economics* 136 (July 2023), 103555, https://doi.org/10.1016/j.jue.2023.103555

[12] Brendon Greenaway-McGrevy, *"*Can Zoning Reform Reduce Housing Costs? Evidence from Rents in Auckland*." Economic Policy Centre, Urban and Spatial Economics Hub*, Working Paper No. 016 (Auckland: The University of Auckland Business School, 2021), https://www.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/Economic-Policy-Centre--EPC-/WP016%203.pdf.

[13] Shlomo Angel, *Planet of Cities* (Cambridge, MA: Lincoln Institute of Land Policy, 2012), https://www.lincolninst.edu/publications/books/planet-cities.

[14] Alain Bertaud, *Order Without Design: How Markets Shape Cities* (Cambridge, MA: MIT Press, 2018), https://mitpress.mit.edu/9780262550970/order-without-design/.

[15] Alan Evans, *Economics and Land Use Planning* (Oxford: Blackwell, 2004), DOI:10.1002/9780470690895; and Alan Evans, *Economics, Real Estate and the Supply of Land* (Oxford: Blackwell, 2004), DOI:10.1002/9780470698860.

[16] Housing Technical Working Group, *Assessment of the Housing System,* 7. https://www.treasury.govt.nz/publications/jp/assessment-housing-system-insights-hamilton-waikato-area

[17] Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development and The Treasury, *Research on Housing as an Enabler of Economic Growth and Productivity*, HUD2024-003621, aide-memoire to Hon Chris Bishop, 8 March 2024, https://www.hud.govt.nz/assets/Uploads/Documents/Proactive-Releases/hud-2024003621-research-on-housing-as-an-enabler-of-economic-growth-and-productivity.pdf.

a) undermine all three functions of government (allocation, distribution, stabilisation), especially monetary policy, which loses legitimacy when interest rate changes disproportionately inflate land and housing prices, widening asset-based inequalities;[18]

b) entrench wealth inequality by amplifying access to housing as a store of wealth and as a channel for intergenerational transfers. While measured wealth inequality (e.g., Gini coefficients) may decline when middle-wealth households benefit from rising housing values, this masks deeper disparities in opportunity, tenure, and intergenerational mobility; [19] and

c) distort capital allocation by incentivising investment in land speculation over more productive enterprise. This diverts financial and entrepreneurial effort from firm formation and technological advancement into asset price inflation, weakening long-run economic dynamism.[20]

3.12 Elevated land prices also mediate inflated infrastructure costs, making climate adaptation and delivery of resilient infrastructure substantially more expensive, compounding risk and eroding national resilience.[21]

3.13 Cost increases caused, or at the least, exacerbated by our planning practices go even further. Restricted land use undermines construction sector productivity more broadly, because restrictive land use regulation (zoning) prevents economies of scale. That increases costs.[22] For example:

- It is difficult for construction companies to achieve economies of scale when planning constrains the number of houses that can be built
- Smaller builders are also less likely to source international building materials when the per dwelling savings are not large relative to the up-front cost of contracting, and
- Cost effective value engineering for replicable builds becomes unsuitable for smaller one-off builds.

The Benefit of Change

3.14 The key benefit of reform is reversing these trends across virtually all dimensions of New Zealanders' living standards, overall societal prosperity, resilience, and fairness, as well as global economic competitiveness. The shift to a more rules-based, property rights-respecting planning approach, which frees up the supply of land for development alongside credible

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18 Housing Technical Working Group, *Assessment of the Housing System*, 2.

19 The Housing Technical Working Group has explicitly acknowledged that, "over the past twenty years existing homeowners have benefitted from a rise in the value of their main asset" and that this has "amounted to a redistribution of wealth from non-owners to owners". This has been fuelled by rising house prices that have "caused a dramatic rise in the deposit required to get a mortgage," particularly relative to average incomes. Consequently, many people, mostly of younger generations, "have been forced to delay their entry into homeownership" while "others have been locked out of the housing market, altogether, exposing them to high rental costs." See *Assessment of the Housing System*, 7.

20 Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development and The Treasury, *Research on Housing as an Enabler of Economic Growth and Productivity*, 6-7.

21 Ibid.

22 Edward L. Glaeser and Joseph Gyourko, *The Cost of Zoning*, NBER Working Paper, No. 33188 (Cambridge, MA: National Bureau of Economic Research, April 2024), https://www.nber.org/papers/w33188.

threat of entry into land markets, is the logical way forward. A substantial body of work exists that points to what good practice looks like and how to operationalise a different planning system that enables competitive urban land markets.

3.15 The Initiative agrees with the Minister of Housing that interim planning practices that do not align with the future system should be discontinued, that incremental change will not be sufficient to remedy these issues, and that wholesale replacement is necessary. It is now the task of government to translate the well-established evidence base into a New Zealand approach to urban planning.

4. GENERAL COMMENT

4.1 The key failure points of New Zealand's planning system are: the socialisation of property rights (removal of standing); discretionary land use decision-making processes that do not confront the social cost of the constraints they impose (no compensation for regulatory takings), and which are used to protect incumbent property values rather than improve allocative efficiency or strip out transaction costs in our development system; the lack of dedicated mechanisms for beneficiaries of growth to autonomously organise themselves and drive forward development projects, who are also undermined by institutionally gated access to finance – reinforced by political economy dynamics (i.e., Fishel's 'Homevoter Hypothesis'[23]).

4.2 Our current planning system brings all these factors together in a perfect storm through its 'integrated management' approach, which requires a single decision point on plans and land use permissions to make trade-offs across all relevant considerations while also being misaligned with the broader goal to enhance overall prosperity and the immediate benefits of a development project.

4.3 Councils, specifically, are in a difficult position, being at odds with the principle of congruence (discussed below): they bear most of the financial cost and risk of accommodating growth while central government benefits from the additional tax revenue generated from growth.

4.4 All this creates maximal resistance and barriers to development.

5. OVERARCHING PRINCIPLES

The Congruence Principle

5.1 'Integrated management' fundamentally undermines the most important economic principle of growth-supporting urban planning systems, namely that of 'financial congruence': align those that benefit, those that lose, and those that consent in urban development. When these conditions are closely met, incentives effectively drive value creation while internalising social costs.

5.2 How our planning system undermines this principle of congruence explains why New Zealand has uncompetitive land markets and a housing affordability crisis. It highlights that hardship can result from institutional overreach even without scarcity. The way out is implementing an urban planning system that reinstates the principle of congruence.

[23] William A. Fischel, *Zoning Rules!: The Economics of Land Use Regulation* (Cambridge, MA: Lincoln Institute of Land Policy, 2015), https://www.lincolninst.edu/publications/books/zoning-rules

5.3 The key question is how to operationalise this in practice to achieve allocative efficiency while reducing the sum of total social costs: prevention, compliance, transaction, administrative and enforcement costs.

The Compensation Principle

5.4 Compensation is central to legitimacy and allocative efficiency of land use decisions. Whenever regulatory actions or planning interventions impose restrictions on landowners, diminishing their property values or restricting their lawful land use options (disproportionately to the public benefit), compensation ensures that the true social costs of such decisions are confronted directly and transparently. By explicitly recognising these costs, compensation establishes accountability for decision-makers, compelling them to weigh the net benefits of regulatory interventions against the tangible losses they impose.

5.5 This principle serves several essential functions:

- *Social Cost Transparency:* Compensation requires decision-makers to internalise the external costs their regulations impose on landowners. This ensures regulatory actions reflect genuine social costs, preventing arbitrary or inefficient land use restrictions.

- *Allocative Efficiency:* By ensuring those who lose from regulatory actions are compensated, compensation discourages rent-seeking and regulatory overreach. Compensation shifts incentives on land use decision-makers, aligning them more closely with market outcomes, thereby facilitating land uses that offer the greatest overall social benefit.

- *Legitimacy and Fairness:* Compensation acknowledges that landowners should not bear disproportionate costs arising from decisions made for broader societal benefit. This fairness enhances the legitimacy of land use decisions and reduces conflict and resistance to regulatory actions.

5.6 Together, these functions of compensation ensure any land use decision framework respects property rights, promotes efficient outcomes, and maintains social licence for governance.

The Mirror Principle

5.7 Those planning systems overseas that effectively 'make room for growth' are underpinned by a property right framework that balances compensation and betterment (in the broad sense, when value uplift occurs – for example, through investment in local goods). The planning system should recognise those affected by regulatory takings (including partial property rights takings) but also go beyond this. It should also capture the uplift in land value that typically accompanies public interventions, and factor that in.

5.8 Under the mirror principle, any compensation payment made to landowners for a diminution in property value is explicitly offset by the betterment gains that accrue to their remaining landholding. This ensures landowners are neither worse off nor unduly enriched by planning decisions (where provision of infrastructure lifts the value of their land and is subsidised by others for which they make no reasonable contribution), restoring the symmetry of value equalisation long enshrined in the *Public Works Act (PWA) 1981*.

5.9 The principle ensures decision makers are compelled to confront the full social cost of their chosen planning interventions. Rather than viewing compensation as a mere ex post liability, planners and elected officials quantify both the diminution and the uplift associated with a

reservation or restriction. The net liability – compensation less betterment – becomes the true fiscal cost of the intervention, internalising what would otherwise be externalised onto future taxpayers or ratepayers.

5.10 Institutionalising the mirror (betterment set off) principle is critical to making corridor-based spatial planning fiscally affordable. For example, where a narrow strip is taken or reserved for future transport, any increase in the value of the owner's retained land caused by the public work must be deducted from compensation for the land taken (PWA s62(1)(e)-(f)). Where only part of a property is taken, compensation is assessed on a whole-of-work basis, netting severance, injurious affection and any betterment to the balance (PWA s64).

5.11 In the roading context, councils also have a complementary betterment mechanism: if the formation or widening of a road increases the value of the owner's remaining land by more than the compensation otherwise payable for the part taken, the excess must be paid to the council as betterment, with receipts credited against the project's costs and payment able to be made by instalments secured over the land (LGA 1974 s326).

5.12 For the avoidance of doubt, the PWA still requires an offer of any net compensation when land is taken and provides for interest on unpaid sums (PWA s70 and s94).[24]

5.13 In practice, fiscal affordability comes from (i) betterment set off reducing the net compensation (often to zero), (ii) using LGA s326 instalments for any betterment charges in roading schemes, or (iii) agreeing staged terms contractually, rather than from any unilateral statutory deferral.

5.14 Embedding this mirror mechanism in primary legislation and regulatory guidance transforms compensation from solely open-ended fiscal exposure into an allocatively efficient tool that enables self-funding. It ensures every planning decision is taken with full visibility of its net cost and benefit and enables government to make room for growth, affordably.

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[24] *Reservation without taking:* Where a future corridor is protected by designation or by plan overlay rather than immediate acquisition, compensation under the *Public Works Act 1981* is not triggered at that point. The owner retains reasonable use (subject to not hindering the work: RMA s176). If a designation or rule renders the land incapable of reasonable use or imposes an unfair and unreasonable burden, the Environment Court may require acquisition under the PWA or modify the control (RMA s185 and s85). When the corridor strip is ultimately acquired, compensation is assessed net of any betterment to the retained land (PWA s62(1)(e)-(f) and s64), and, for roading, any betterment excess is recoverable with instalment options (LGA 1974 s326). In short, 'reserve now, acquire later' is feasible within existing law, but the mirror set off operates at acquisition, not at the reservation stage.
Mitigations and voluntary instruments while compensation is not triggered: Where a corridor is reserved but not yet acquired, the requiring authority can rezone the balance land at the same time (e.g., more enabling height/density or a more permissive zone) and allow interim uses/expedited consents to soften planning blight and deliver immediate, bankable betterment. That uplift is later netted off at acquisition under the PWA (s62(1)(e)–(f) and s64). In parallel, the parties can deploy voluntary instruments – option agreements (put/call or rights of first refusal), staged or conditional purchase agreements, encumbrances/covenants and consent notices, or temporary licences/easements – to protect the corridor while aligning timing and cash flow with project milestones. Acquisition timeframes can be signalled in the designation and refreshed via outline-plan processes, with narrow overlays and lapsing discipline to minimise blight. For roading, any betterment above compensation can be recovered and paid by instalments under LGA 1974 s326. Together, these tools let owners realise value now, while the public purpose function of spatial planning secures the future corridor at the lowest net fiscal cost when acquisition proceeds (with the mirror set off applied at that time).

The Threat of Entry Principle

5.15 A credible threat of unrestricted entry into urban land markets is the lynchpin of true competition: landowners at the urban fringe and within established neighbourhoods must face real and overwhelming competition from new developers. It is the essential mechanism through which landholders are disciplined by the possibility of new competitors accessing alternative supply, especially of a scale whereby entrants can serve most demand at minimum price equal to opportunity cost. Even where zoned capacity appears abundant, scarcity rents may persist unless developers or community groups can activate that supply.

5.16 Embedding this entry mechanism requires more than permissive zoning. It demands secure, well-defined property rights that minimise institutional gates to development; access to financing instruments for infrastructure that do not depend on constrained council balance sheets; and a statutory right for communities to organise into special purpose governance entities able to fund and deliver necessary services, recovering costs directly from beneficiaries over time.

5.17 Threat of entry is critical. It transforms theoretical capacity into real market pressure. It pins land values at the fringe to their rural opportunity cost, discouraging extractive scarcity rents and unleashing competitive incentives throughout the entire urban area. Any planning system that fails to embed this mechanism will struggle to deliver genuinely affordable, dynamic, and equitable urban growth.

The Uncertainty Principle

5.18 Current New Zealand planning operates on a 'predict and provide' model, under which councils forecast average population or household growth and then zone land and commit infrastructure to match those projections: providing only what is predicted. This approach treats future demand as knowable, ties land supply permissions to fixed infrastructure budgets and timelines, and embeds rigid capacity limits into statutory plans.

5.19 In practice, the 'predict and provide' system is static and unresponsive to shifts in growth patterns. Detailed corridor and node plans are sequenced around single-point infrastructure readiness, pre-empting more adaptive solutions and stalling development when projections prove inaccurate. By linking permissions to narrowly scoped, costed infrastructure programmes, regulators effectively eliminate optionality and insulate decisions from market signals, magnifying the social and fiscal costs of errors in forecasting.

5.20 The needed alternative is a dynamic, option preserving planning framework that decouples land use permissions from upfront infrastructure commitments. A narrow, 'grid first' approach would specify 'paper corridors'[25] without capital outlay, protecting development options on a long horizon while deferring detailed investment decisions to project level entities. Permissive, blanket-style- zoning can better signal abundant supply, and adaptive triggers (e.g. special purpose entity formation) can harness real time demand shifts.

5.21 Planning approaches that can operate under uncertainty are more consistent with enabling competitive land markets, because they maintain flexibility, reduce risk of over- or under-provision, and allow developers and project communities that benefit from development to

[25] These need not be legal rights of way. Rather, they can simply constrain the future use of that land to avoid pre-empting its role in enabling future developent.

mobilise the services (e.g., infrastructure) to unlock land for housing, when and where it is needed.

6. IMPORTANT LESSONS FROM HISTORY

The Auckland Unitary Plan

6.1 New Zealand's modern planning regime was established by the *Resource Management Act 1991*, which introduced the doctrine of 'integrated management'**:** a single decision-making process to weigh land use, environmental and infrastructure considerations together. This model was epitomised by the *Auckland Unitary Plan* (operative 2017), born of the 2010 'supercity' amalgamation and required the merger of thirteen legacy plans into one unified framework under the RMA. While this experiment was a step forward, enabling about three times more development capacity, infrastructure constraints blocked much of its realisation.

Capacity Modelling and Supply Rationing

6.2 In 2016, the *National Policy Statement on Urban Development Capacity* (NPS UDC) mandated *Housing and Business Development Capacity Assessments* (HBAs) requiring councils to model 'plan enabled', 'commercially feasible' and 'infrastructure ready' capacity. Although intended to discipline planning with empirical rigour, these modelling exercises were quickly repurposed as tools for justifying rigid supply limits, rather than unlocking additional land, essentially providing councils with the means to justify rationing development opportunities.

The Infrastructure Link and Integrated Management Gridlock

6.3 By formally linking land use permissions to specified infrastructure budgets and timing, integrated management compounded the problem. Councils found themselves politically and fiscally unable to deliver the required services yet still constrained from permitting development until those services were committed. The result has been a self-reinforcing cycle of gridlock in which councils approach urban planning as an 'infrastructure cost minimisation problem': the more tightly infrastructure and planning have been bound together, the harder it has become to activate zoned capacity.

Legislative Constraints: Secondary vs Primary Law

6.4 National direction under the RMA (e.g. NPS UDC and NPS UD) is secondary legislation (a product of executive government) and cannot override councils' core obligations under primary statutes (by authority of parliament).[26] This notably includes the *Local Government Act 2002* and their funding covenants (e.g. via the LGFA).

6.5 In practice, this means that although central (executive) government can prescribe objectives and monitoring requirements through national direction (secondary law), it cannot compel councils to fund or deliver infrastructure, which is governed by primary law put in place by parliament. This legal gap leaves councils free to delay or dilute growth enabling investments, perpetuating the very mismatch integrated management is relied upon to solve.

6.6 The important lesson is that key objectives and planning practices (such as 'Metro Major Corridor Plans', discussed below) cannot be prescribed to occur when the planning system

[26] Secondary legislation has additional challenges. It is subject to judicial review and is a function of day-to-day politics, especially shifting agendas of Ministers of the day. This can inject significant volatility into the regulatory environment of the planning system.

itself is governed by higher order mandates from parliament. These mandates emanate from a vast primary law legislative architecture that extend beyond the RMA. History has shown that embedding a new paradigm of urban planning incontrovertibly requires amendments to, if not wholesale replacement of, the wider legislative architecture. This includes local government and transport, and others. They are not optional.

7. CORE DIMENSIONS OF COMPETITIVE URBAN LAND MARKETS

7.1 A competitive urban land market is one in which land prices are disciplined by robust competition across multiple development opportunities (both at the fringe and within established areas) so that price differentials (location rents or 'natural land rents'), reflect the net value of amenities, rather than regulatory scarcity. The Initiative understands the goal of the planning reform, therefore, to approximate this competitive ideal by enabling genuine price-based rivalry among land suppliers.

7.2 To assess whether a reform proposal meaningfully advances the goal, one can evaluate the proposal against each of four core dimensions of competitive urban land markets. One can also ask what it takes for those dimensions to enable rather than restrict land markets, as shown in Table 1:

Table 1: *Core Dimensions of Competitive Urban Land Markets*

Dimension	Restricted	Enabled
Planning (Tier 1)	Rigid. Quantified growth tied to 'just in time' zoning and fixed infrastructure forecasts. Reluctantly reactive. Spatial planning of the broad type linked to detailed council investment planning that is not a distinct Tier in the planning hierarchy, because it does not clearly differentiate itself in purpose/function or practice from land use regulation/zoning.	Flexible. Tier 1 Open-ended spatial frameworks with narrow focus on proactive corridor alignment, which prepares for long term doubling/tripling of the urban footprint decades in advance of development (options, not capital outlay). Distinct purpose with differentiated practice from Tier 2. Independent of Tier 2.
Regulation (Tier 2)	Micromanaging. Highly prescriptive of land use irrespective of genuine or actual constraints, arbitrary discretion without accountability, promotes 'learned helplessness', sequenced, bespoke consents that erect barriers to even minor development, invites rent seeking.	Permissive. Tier 2 'As of right' rules up to demonstrable externality thresholds, broad blanket-style enabling provisions upfront, promotes agency, constrained only by 'material' externalities (movable 'soft' limits with investment in additional infrastructure capacity). Distinct purpose with differentiated practice.
Infrastructure	'Proof of readiness' requirements and reliance on council ('general obligation'[27]) finance and their associated balance sheets throttle supply.	'Confidence in delivery' through forward-funded-, pooled ('non-general obligation'[28]) finance tools that shift payment responsibility to beneficiaries over time. Can include cost sharing.

[27] A type of public borrowing backed by the full revenue base of a council, typically guaranteed by property rates. 'GO' debt is consolidated on council balance sheets and exposes ratepayers to repayment risk if projects fail.

[28] Debt repaid solely from project-specific revenue streams, such as levies or user charges. 'Non-GO' finance can be kept off council balance sheets, enabling infrastructure investment without constraining general debt capacity.

Dimension	Restricted	Enabled
Governance	Incongruent. Centralised 'single point' decision-making, risk averse gatekeeping with little alignment between value creation and beneficiaries.	Congruent. Distributed, dynamic decision-making via special purpose governance models or community structures that canvass the costs and benefits with long horizon mandates.

7.3 In assessing the *Discussion Document's* proposals against these core dimensions, it is important to recognise that New Zealand's current planning system conflates two conceptually distinct functions: 'planning' in the sense of long-horizon spatial preparation (which we label 'Metro Major Corridor Plans'), and 'land use regulation' in the sense of development control and zoning ('Local Land Use Plans').

7.4 In most well-functioning systems internationally, these functions (corridor plans versus land use plans) are institutionally and operationally distinct. Spatial planning (Tier 1) focuses on metro-scale coordination (the identification and reservation of future corridors, arterial and city shaping grid network, public parks and spaces and large-scale urban expansion) operating across long-horizon timeframes (e.g. 50 years or more) to set the stage for orderly growth. Land use regulation (Tier 2), by contrast, involves providing permissive intensity envelopes for local land use alongside zoning instruments that set development parameters to promote urban performance with increasing density, and within broader skeletal frame Tier 1 provides.

7.5 In New Zealand, however, what is often called 'spatial planning' is in practice Tier 2 regulatory activity (district plans, discretionary overlays, consent processes, and infrastructure investment planning and delivery) miscast as 'strategic planning'. This mischaracterisation risks perpetuating the current model under a new name, as planners interpret spatial planning to mean what they already do. The result is that the primary function of planning as spatial preparation (delivering 'broad public capability') is left largely unfulfilled, and development permissions continue to be rationed through regulatory discretion rather than enabled and made cost-effective through structural foresight.

7.6 Therefore, when assessing whether Pillar 1 proposals genuinely allow competitive land markets, we must first be clear that true planning capability – Tier 1 spatial planning ('Metro Major Corridor Plans') – is largely absent in the current system.

7.7 To realise the reform's ambitions, that spatial function must be constructed as a distinct institutional layer above land use regulation, with its own distinct statutory purpose, tools, and horizon. Crucially, Tier 1 planning must be structurally decoupled from infrastructure investment plans and council long-term financial strategies.

7.8 The role of Tier 1 Spatial Planning (of the 'Metro Major Corridor Plan' type) is to make room for growth by preparing the skeletal framework decades in advance before urban development then extends the urban footprint. The preparatory planning needs to be done irrespective of current funding envelopes or council willingness to invest specific projects. Without this separation, the system will reproduce the gridlock that integrated management necessitates: spatial enablement becomes contingent on certainty, built on proof of near-term infrastructure commitment, which is a recipe for suppressing threat of entry and entrenching scarcity.

Assessing Pillar 1 Against the Core Dimensions

7.9 Incremental tweaks, such as tighter modelling or marginal streamlining of approvals, may yield process improvements, but they fall short of enabling a competitive market. Only those reforms that simultaneously open new planning frameworks (i.e., Tier 1 'Metro Major Corridor

Plans'), lower regulatory and financial barriers, and empower agile governance structures will deliver the credible threat of entry necessary to discipline land prices.

7.10 The government's signalled structure of the RMA reform programme captures these dimensions. Pillar 1 ('Freeing up land for urban development') covers planning and regulation; Pillar 2 ('Improving infrastructure funding and financing') directly links to the infrastructure bottleneck; and Pillar 3 ('Providing incentives for communities and councils') speaks to governance, but the signalled scope of work does not appear to be concerned with how this domain critically contributes to creating credible threat of entry into land markets. The Initiative recommends Pillar 3 expand in scope to more explicitly serve the 'right of assembly'.

Why the Pillars Are Mutually Dependent

7.11 The reform architecture rests on the three pillars, and we have already signalled that the Initiative considers each to be individually necessary, but only all pillars are jointly sufficient:

- *Pillar 1: sets the rules of the game* – by combining Tier 1 'Metro Major Corridor' type spatial planning with Tier 2 permissive 'Local Land Use' regulation
- *Pillar 2: supplies the means to act* – through liberal, non-GO ('general obligation') funding and finance tools (IFF levy, revenue bonds), and
- *Pillar 3: provides the right of assembly* – by empowering beneficiaries to self-organise, invest and capture uplift through special purpose governance entities that establish congruence between all relevant parties.

7.12 The pillars so delineated each remove a distinct bottleneck. If any one of the pillars fails to address its respective issue, then the whole system re-constricts. The interdependency between the pillars is spelt out in Table 2 below.

Table 2: *The Interdependency Between Reform Pillars*

#	What's enabled	What's missing	System reaction
Paper capacity	**Pillar 1** Fully enabled: Tier 1 metro corridor plans and Tier 2 permissive zoning	**Pillars 2 & 3** Non-GO finance tools and special purpose governance	Metro corridors are reserved and zoning envelopes are generous, but finance remains locked inside council balance sheets. Developers cannot service land or extend networks, so zoned capacity is hypothetical: abundance exists only on paper and prices stay high.
Empowered but Unfunded	**Pillars 1 & 3** Tier 1 and Tier 2 planning plus special purpose governance	**Pillar 2** Non-GO finance tools	Metro corridors are mapped, zoning envelopes are generous, and communities can legally assemble to deliver projects. Yet capital remains institutionally gated behind council balance sheets and central approval processes. Without liberal finance instruments they cannot raise or deploy the funding to service land or build networks. Projects stall at the funding gate; development capacity stays stranded and scarcity rents persist despite the new 'right to organise'.
Regulatory snap-back	**Pillar 1 (Tier 2)** zoning liberalised,	**Pillar 1 (T2), 2 & 3** Tier 1 plans only plus certainty and	Planners may want to zone generously, yet without finance tools they cannot be confident infrastructure will follow. Since development envelopes in plans in

#	What's enabled	What's missing	System reaction
	but Tier 1 planning weak	access to project (non-GO) finance	principle proxy externality management, yet no further infrastructure investment is foreseeable, planners revert to 'planning with certainty', requiring proof-of-readiness tests, down-zoning or inserting discretionary overlays until envelopes reliably match existing or predictable (now very limited) infrastructure capacities that correspond one-to-one with already accounted-for, pre-set and bounded pools of funding. The old 'integrated management' rationing logic reasserts itself. Beneficiaries of growth have no independent means to drive value-add development.
Limited threat of entry	**Pillars 1 & 2** Tier 1 corridor planning and Tier 2 permissive land use regulation coupled with independent [non-GO] finance)	**Pillar 3** Special purpose governance entities align those that benefit, those that lose, and those that consent in development	Strategic corridors are mapped and money is available, but approvals still rest with councils that bear direct costs and diffuse benefits, with little incentive to realise value. The actors who would benefit most from growth lack a vehicle to self-authorise, pool costs, or capture uplift; they are unable to bypass (act independent of) council inertia and value creation apathy to enter the market and compete. Without this congruence, political resistance endures, the credible threat of entry stays weak, and scarcity rents persist.
Costly leap frogging	**Pillars 2 & 3** finance and right to assemble	**Pillar 1** (Tier 1 spatial preparation)	Communities can self-organise and finance infrastructure, but spatial preparation is absent. Without pre-reserved corridors or early land acquisition, infrastructure must thread through fragmented ownership at late stage, facing already high land prices or pre-empted built areas, driving up assembly, acquisition and construction costs. Value-capture revenue falls short. Even empowered actors stall when facing these costs and coordination challenges.

7.13 Table 2 illustrates that the system behaves less like a pipeline and more like a three-legged stool: remove any leg and the structure collapses into some variant of rationing, inertia, or excess cost. Only when all three pillars are operational – planning & regulation (Pillar 1), finance (Pillar 2), and governance (Pillar 3) – does credible threat of entry emerge, disciplining land prices and unlocking real development capacity.

8. SPECIFIC POLICY AREA 1 – MODELLING AND DEVELOPMENT CAPACITY

Current Capacity Modelling Practices

8.1 The *Discussion Document* proposes a refinement of existing development capacity modelling processes, anchored around the introduction of new housing growth targets. These targets would require councils to enable 30 years of development capacity using high household growth projections (based on Stats NZ, which are not very high), with a 20 percent contingency margin added in place of the existing 'competitiveness margin'.

8.2 This reform builds on existing requirements in the National Policy Statement of Urban Development (NPS UD) for councils to provide sufficient capacity over the short (0–3 years),

medium (3–10 years), and long (10–30 years) term. However, under current practice (and as is largely carried over into Pillar 1) the definition of 'sufficient' capacity is tightly coupled to whether land is not just *plan enabled* but also *infrastructure ready*, and *commercially feasible*.

8.3 In practice, this framework has become heavily reliant on complex capacity modelling exercises, particularly the *Housing and Business Development Capacity Assessments* (HBAs), which estimate projected demand and attempt to translate this into plan-enabled and feasible land supply. These modelling outputs are then fed into Future Development Strategies (FDSs), which councils use to define where growth 'should' occur, and which locations merit zoning or infrastructure investment.

8.4 But this chain of modelling is subject to serious institutional and technical limitations: HBA results are often treated deterministically rather than indicatively; feasibility relies on ever escalating land prices and embed static price/cost profiles that make development look infeasible in places it could be if land supply were abundant; and infrastructure readiness becomes a gating criterion rather than a planning input. As a result, these exercises now routinely function as rationing devices rather than enabling tools.

Why 'Predict and Provide' Fails

8.5 The Government's intention to raise capacity targets is welcome, but it will not be transformational unless it breaks from the underlying 'predict and provide' paradigm. This approach begins with central projections of household growth, usually derived from demographic models that remain unchanged when housing is affordable or unaffordable. Councils are then instructed to plan for the needed capacity to accommodate those projections, plus a margin.

8.6 But these forecasts are not needed. Cities have successfully undertaken 'Metro Major Corridor' planning without such quantitative methods, with success. Such forecasts are also inherently uncertain and backward looking. They cannot capture the emergence of new infrastructure corridors, shifts in agglomeration patterns, technological changes, or decentralised investment signals.

8.7 Moreover, tying development permissions to what can be confidently modelled (and, worse, what can be immediately funded under council balance sheets) locks in a static system that cannot adapt to surprise, demand-side dynamism, or private sector initiative. As experience with the NPS UD has shown, the result is not supply elasticity but gated release. Councils zone what they can afford, not what the market needs. This blocks leapfrogging, suppresses the threat of entry, and reinforces scarcity.

8.8 There is an additional fiscal problem. Under the current model, development is permitted only when councils can fund supporting infrastructure in the near term that is delivered 'just in time'. This places a rightful burden on Pillar 2 to deliver solutions. But there is a more fundamental issue at play here: While 'just in time' delivery may sound skilful, it unfortunately maximally exacerbates the cost-of-service delivery, because land has already capitalised the anticipated value uplift. We end up buying concrete on appreciated land, rather than first acquiring unappreciated land and push the risk of development timing onto councils.

Analogy: A Plain English Illustration

8.9 Current practice is akin to stocking your pantry with only the food you expect to eat in the next three days. You run a model of likely dinner preferences, cross-reference it with available

funds, and then only buy what is immediately justifiable. If guests arrive, or your appetite shifts, you cannot cook anything else. Your pantry was not built for optionality, only for optimisation. Worse, you then argue that your guests should leave because you were not funded to feed them.

8.10 A genuinely enabling planning system is a pantry of optionality. It prepares for a wide range of appetites, confident that whatever is chosen, there will be something available. The cost of stocking this pantry is low, because the act of enabling does not require immediate consumption or infrastructure spend. But the value of preparedness, especially under uncertainty, is high.

The Case for Blanket Style Zoning

8.11 The most successful interventions under the current system, particularly the *Auckland Unitary Plan*, the *Medium Density Residential Standards* (MDRS) and aspects of the NPS UD intensification rules, worked not because of modelling, but because of blanket style planning practices.

8.12 These rules enabled development by default, regardless of modelled demand, contingent infrastructure funding, or discretionary council review. They represent a step toward property-rights-based planning (i.e., more rules-based than discretionary) in which land use is permitted unless demonstrable harm to others justifies restriction.

8.13 This is the direction reform should now pursue. Capacity modelling should become a voluntary monitoring tool (informational), not a control device (determinative).

8.14 Spatial plans should set corridors for future infrastructure, not constrain where development may occur. District plans should adopt a maximally enabling intervention logic constrained by the need to reduce transaction costs across the system (not replace the market) while looking to enable all development that can internalise or agreeably manage 'material', [29] 'technological'[30] externalities (not to be confused with 'pecuniary'[31] externalities).

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[29] A 'material' externality is a significant positive or negative spillover from an activity affecting parties not directly involved that prevents allocative efficiency. It is substantial enough to warrant intervention and incur the costs and risks of intervention. For example, a factory emits airborne pollutants that cause respiratory issues in nearby residents. 'Material' externalities do not include effects on third parties via the price system, known as 'pecuniary externalities', because these serve rather than hinder allocative efficiency. For example, a new supermarket opens and undercuts prices, causing nearby smaller shops to lose customers.

[30] 'Technological' externalities describe how someone's activity directly impacts another person's resource use (consumption or production) or their property in a tangible way without compensation, and this effect is not accounted for by market prices. For example, a factory polluting a nearby river harms downstream residents' health by reducing water quality. The effect is direct, leads to inefficiencies, and is not priced. It leads to inefficiencies because the person causing the externality does not bear the full costs (or reap the full benefits) of their actions, they typically overproduce negative externalities (e.g., pollution, noise) or underproduce positive externalities (e.g., beneficial innovations, public health improvements). This discrepancy between private decisions and socially optimal outcomes leads to inefficient resource allocation. These type externalities contrast with 'pecuniary' externalities.

[31] 'Pecuniary externalities' describe how someone's activity affects others only indirectly, through market prices – impacts are mediated through market mechanisms. Pecuniary externalities redistribute economic opportunities or wealth, but do not result in efficiency loss or gain. For example, opening a popular new cafe might cause competitors to lose business due to changing prices or customer patterns. While this affects others financially, it does not create inefficiency or require regulatory action. Unlike pecuniary

Oppose

8.15 The Initiative opposes the continued use of development capacity modelling, underpinned by 'integrated management', as the key gating criterion for land use permissions and the foundational paradigm for spatial planning under the new system.

8.16 The proposals in the *Discussion Document* replicate the core flaw of the NPS UD regime by retaining the requirement for councils to demonstrate 'feasibility' (variously defined) in their enabled capacity, based on static and inelastic supply-side modelling exercises that councils are poorly equipped to perform and can be creatively abused to antithetical ends.

8.17 While improving the empirical and evidential grounding of planning is commendable, the proposed approach misunderstands the role of planning: planning is preparatory and so should enable a platform of options, not act as a rationing mechanism based on projections that are rigidly enforced to achieve certainty and linked to council-dependant infrastructure investment constraints.

8.18 If zoning is tied down this way, the proposals would continue to suppress the threat of entry and insulate incumbent landholders from competitive pressure. This is incompatible with the stated goal of enabling competitive urban land markets.

Recommendations Specific Policy Area 1 - Modelling and Development Capacity

To realise a shift away from capacity-based rationing, the Initiative recommends the following changes to the *Discussion Document's* proposals:

5. *Remove modelling as a gating mechanism for zoning or spatial planning.* All references to 'feasibility' and 'realistic capacity' should be framed as monitoring (informational), not criteria for enabling development (determinative).

6. *Decouple Tier 1 (Metro Major Corridor Planning) and Tier 2 (Local Land Use Planning) from infrastructure sequencing*. Planning must prepare the ground and permit what is in-principle manageable assuming investment; delivery systems can then determine timing. (Shift the bottleneck from planning (Pillar 1) to infrastructure funding and financing (Pillar 2) by reorienting planning away from 'proof of infrastructure investment' upfront towards planning that is 'confident in delivery'.

7. *Let go of 'offsetting capacity'* in the case of unlisted qualifying matters in favour of requiring council planners to apply zones more broadly up to the level where externalities can be net-beneficially managed. No offsetting should be needed or possible when development opportunities are already maximally enabled.

8. *Adopt a blanket style, template-based zoning system* (dedicated section on this further below) constrained only by material ('technological') externality thresholds, allowing development by way of a 'bankable rule' (reliable trigger for developers that allows them to proceed with development, even upzone, when investment intensity managed the relevant externalities) unless clear, net-negative externalities cannot be managed.

externalities, 'technological' externalities matter for policy interventions. This is because pecuniary externalities are usually considered part of normal market adjustments and typically don't justify corrective policy action.

9. *Enable leapfrogging by default.* Remove any provisions that require adjacency or sequencing as conditions of capacity inclusion.

10. *Clarify that housing growth targets guide modelling but do not dictate zoning*. Plans must allow capacity to exceed forecast demand.

By redefining planning as a platform for option value, and modelling as an input (not a constraint), the abundance required for competitive land markets can be unlocked.

9. SPECIFIC POLICY AREA 2 – SPATIAL PLANNING

The Purpose of Spatial Planning

9.1 Spatial planning in New Zealand has historically been overengineered and underdelivered. The Discussion Document continues this pattern, treating spatial plans as mechanisms to actively orchestrate growth, direct land use change, and integrate infrastructure sequencing, funding, and development triggers. This is not the path to affordable cities.

9.2 At its best, spatial planning serves a more modest but vital purpose: to provide general purpose capability in the form of future corridors, rights-of-way, and land reservation for long-term infrastructure alignment. This function is spatial in the literal sense. It protects space. Done well, it enables the market to discover the best locations for growth and allows infrastructure to be delivered with confidence as demand emerges. It provides option value.

9.3 What spatial planning must not be is a renewed vehicle for integrated management, where zoning, infrastructure investment, environmental controls, and sequencing rules are bundled into a single exercise in discretionary prediction. That model has already failed. In practice, councils cannot afford the infrastructure, cannot model demand with accuracy, and cannot resolve the conflicting goals of stakeholders around the spatial planning table.

9.4 The choice now is not whether to do spatial planning or not, it is whether to do it judiciously in scope or continue using it as a 'one-plan-to-rule-them-all' device that attempts to manage growth, environmental effects, infrastructure, and land economics simultaneously.

9.5 This submission supports a *narrow* approach, consistent with the body of work that outlines spatial planning approaches consistent with competitive urban land markets. This includes the Productivity Commission's recommended 'spatial strategy' model, the New Zealand Urban Land Markets Group's 'open-ended frameworks' and Sense Partner's 'narrow approach to spatial planning', [32] which collectively reject the broader, vision-based or sequencing-dependent alternatives.

Why Integrated Management Failed

9.6 Spatial planning in the form of *Future Development Strategies* (FDSs), underpinned by *Housing and Business Development Capacity Assessments* (HBAs), has proven incapable of unlocking

[32] Sense Partners, *Done Right, Spatial Planning Can Help Improve Housing Affordability* (Wellington: Local Government New Zealand, April 2021), https://d1pepq1a2249p5.cloudfront.net/media/documents/Sense-Partners-2021-Done-Right-Spatial-Planning-Can-Improve-Housing-Affordabil_zNmdXWn.pdf

competitive land markets. The issue lies not in the idea of planning, but in how much it tries to do, centred on a single decision-making point.

9.7 Today, spatial planning frameworks in New Zealand:

- Rely on uncertain demand projections to justify enabling land
- Conflate infrastructure investment with land release decisions
- Are governed by large, consensus-based committees that lack decision rights or fiscal alignment, and
- Try to reconcile housing affordability and environmental protection without clear constraint logic.

The Way Forward

9.8 The alternative has a narrower function and clearer purpose. Spatial planning should be recast as preparation for infrastructure, not a substitute for zoning, nor a regulatory gatekeeper.

9.9 In this narrow mode, spatial planning performs a focused set of tasks:

- *Secure future corridors:* Reserve land early for future arterial roads, bulk three waters infrastructure, regional public transport, and large scale public open spaces. This reduces long-run infrastructure costs and unlocks polycentric urban growth.
- *De-risk leapfrogging:* Enable plans that accommodate forward-aligned development beyond existing urban edges, particularly where price signals or developer proposals justify it.
- *Depoliticise spatial identification:* Remove sequencing triggers and project lists from spatial plans. Instead, let the plan show where infrastructure could go, underpinned by protecting those options, and let planning and finance systems deliver when demand supports it.
- *Establish 50+ year horizons:* Spatial plans should look far beyond district plan cycles. Their role is to identify the corridors and structural grid within which market-led development can unfold over decades.

9.10 This approach reflects what the Productivity Commission, The New Zealand Urban Land Markets Group (2021), Angel (2012), and Bertaud (2018) have clearly articulated: cities are adaptive systems; planning must shape their long-run skeleton, not their day-to-day operations.

Support

9.11 The Initiative supports the use of spatial planning to prepare for future infrastructure delivery, provided this function is kept narrow in scope, clear in purpose, and decoupled from infrastructure funding or zoning triggers.

Oppose

9.12 The Initiative opposes the use of spatial planning (Tier 1 Metro Major Corridors Plans) to:

- Sequence or gate land use change
- Integrate infrastructure investment decisions
- Set growth projections as binding constraints on zoning
- Require "detailed justification" for expansion beyond current networks, or
- Mediate between environmental and housing objectives without clear constraints.

9.13 Vision-heavy models (or *broad* approaches) of spatial planning reflect the very logic that has failed under the current system. They entrench the status quo by empowering veto players and delaying land release under the guise of 'integration'.

Recommendations (Specific Policy Area 2 – Spatial Planning)

To ensure spatial planning (= Tier 1 Metro Major Corridors Plans) contributes to achieving competitive urban land markets, housing affordability and infrastructure coordination, the Initiative recommends:

11. *Recast spatial planning as a general purpose function focused on preparing options:* Spatial plans should only identify future infrastructure corridors and no-go areas under national direction.

12. *Remove zoning and infrastructure sequencing from spatial plans (Tier 1 'Metro Major Corridor Plans'):* These should be addressed separately through lower-level district and investment plans supported by the necessary finance tools.

13. *Establish a long-range planning horizon:* Require spatial plans to look at least 50 years ahead, allowing for flexibility as needs evolve.

14. *Make spatial plans fiscally viable by respecting property rights:* Land acquisition (or the mere protection of the option) should follow the mirror principle, where compensation is offset by betterment. This keeps costs manageable and ensures the burden does not fall solely on local councils, given the national benefits of affordability.

15. *Replace visionary plans with corridor reservation tools:* Spatial plans should designate corridors and protect land for future use, not predetermine outcomes.

16. *Provide override powers for delivery vehicles:* Empower developers and project communities to autonomously deliver infrastructure, aligned with spatial plans, when councils delay.

10. SPECIFIC POLICY AREA 3 – STANDARDISED TEMPLATE ZONING

10.1 An effective zoning framework must do two things: (1) set the conditions for allocative efficiency, by ensuring that land can (not must) be used in ways that generates the greatest net social benefit, and (2) minimise the total costs of regulating land use, including prevention costs (stopping value creating), administrative burdens, and enforcement costs. Most zoning systems do neither.

10.2 Modern zoning in New Zealand has evolved from a set of legal tools originally designed not to internalise externalities, but to protect existing property values. As William Fischel explains in

Zoning Rules! (2015), zoning in the United States was historically a reaction to the difficult to manage urban expansion enabled by new transport modes and infrastructure networks but got captured by local political economy dynamics that then employed zoning to prevent social integration, preserve neighbourhood 'character', and exclude lower-income residents.

10.3 New Zealand's adopted zoning practices in an environment similarly captured by local democratic deficit where future and younger generations not yet present cannot advocate for their interests. The planning system has evolved over time not in response to 'material' externalities, but to guard against change, protecting ongoing house price inflation. As a result, we now regulate to stop activity, not enable it.

10.4 This legacy means that zoning has become a preventive system of land rationing, operating with high information demands and high transaction costs. Councils project future demand, assign development rights accordingly, and tie permissions to infrastructure sequencing. Development becomes a controlled privilege, not a property right.

A Cost Minimising Alternative

10.5 There is a better approach. Zoning should not be used to control *what* is developed based on predictions about demand. It should be used to define, as simply and clearly as possible, where development may occur, and let the market guided by technical standards determine *how* development can best proceed.

10.6 This is the logic of template-based zoning: a zoning framework that sets broad, permissive envelopes for activities across entire cities or regions, allowing all land uses that do not generate material externalities beyond a manageable threshold. Under this approach:

- The default is permission, not prohibition.
- Zoning rules are used to strip out transaction costs, especially where private ordering is impractical, but not to substitute for markets.
- Regulations should target only those matters that are otherwise difficult to manage by the project community or too difficult to solve through prices.

10.7 In this model, the primary purpose of zoning is to reduce the cost of allowing markets to discover where activities best fit.

Japan: An Exemplar, Not a Blueprint

10.8 Japan illustrates the benefits of this approach to zoning, though it implements it through its own institutional architecture. For example, Japan does not forecast housing need, assign quotas, or run land capacity models. Instead, it uses nationally standardised zoning templates, which are applied at the local level.

10.9 These templates define general permissions (for example, by setting maximum floor area ratios (FAR) or coverage ratios) without trying to control for total dwelling yield. Density emerges indirectly from FAR plus market demand and building-code minimums.

10.10 In effect, FAR acts as a *proxy* for externality management: it shapes development intensity in a way that aligns with infrastructure capacity, street widths, and light access. Japan's zoning system allows markets to decide what density to build within a generous, predefined envelope.

10.11 Where necessary, more specific standards (e.g. noise, vibration, air quality) are regulated through separate technical statutes, not the zoning code. This modular architecture means zoning does not carry the full burden of land use regulation. It focuses on spatial permissiveness, while other domains, such as sectoral regulation, manage external effects – an example of decentralised rather than 'integrated' management. No single planner has decision making power over all relevant aspects of a development.

Most Zoning Tools Fail the Economics Test

10.12 The planner-originated rationale for many zoning tools has never stood up to serious economic scrutiny. If we consider some of the key 'building blocks' of zoning systems (for example, minimum lot sizes, maximum building heights, use segregation, or discretionary overlays), then the urban economics literature reveals that most of these either lack a sound efficiency rationale or actively work against it.

10.13 **Appendix A** provides a high-level overview of the most important building blocks of zoning systems, their planning rationale and an economic critique of their validity. For more extensive treatment of the economic reality of a wide range of planning tools, we direct the reader to Alain Bertaud's *Order without Design* (2018).

A Pro-Development Zoning System

10.14 Reorienting the purpose of zoning systems motivates the case for default upzoning across most of the urban environment, within limits based on material externality thresholds. Just as Japanese zones provide liberal envelopes for different land uses and activities, enabling the market to discover viable densities, New Zealand should adopt zoning templates that:

- Define maximum development envelopes to be limited only when clear spillovers exist;
- Avoid limiting land use unless incompatibility is demonstrable;
- Strip out unnecessary procedural discretion.

10.15 This type of standardised, template-based regime to zoning would allow any use that meets three criteria:

- It does not exceed infrastructure capacity (or empowers the project community to pay for needed expansion).
- It manages material externalities within the project boundary or via price mechanisms.
- It does not violate environmental bottom lines (or regional limits).

10.16 This removes subjective, politicised constraints such as 'amenity' and refocuses regulation on material externalities (not 'pecuniary' ones), assuming any environmental bottom lines or regional limits are genuine and quantity and price interventions have been considered before escalating to outright prohibitions.[33] By doing so, zoning becomes a tool to enable competitive land markets, rather than preserve the status quo.

[33] Not all large-scale regional limits determined by government(s) are best managed through defining those 'regional limits' and 'environmental bottom lines' for genuinely public or common pool resources (biodiversity, airsheds, fresh water) and then resorting to outright prohibitions or bans. Sometimes price-

10.17 This kind of template zoning works best when it is modular. That is, when zoning focuses on where things may go, and other rules govern how they operate. Japan does this by relegating technical limits, such as noise or emissions standards, to separate statutes, among them sectoral legislation. The zoning system merely sets the spatial skeleton consistent with the narrow, general purpose approach to spatial planning. This ensures zoning:

- Reduces transaction costs rather than replaces market processes, and
- Separates the domains of permission (where) and performance (how), embedding the zoning rules in one ring-fenced domain and the operational standards in another, so as not to overburden the zoning system.

10.18 Done properly, this approach would allow landowners and developers to respond to changing demand, reduce the time and cost of development, and restore the original purpose of zoning: to coordinate land use at the lowest possible cost, not to centrally distribute it.

Support

10.19 The Initiative supports the move toward standardised zoning that favours clear rules and minimises regulatory discretion. The zoning system should adopt an allocatively efficient logic to facilitating development within constraints limited to 'material' and 'technological' externalities. This includes bulk envelopes (such as FAR) as proxies for externality management, provided they are applied generously to enable rather than constrain development.

10.20 A modular system that distinguishes *where* development can occur (zoning) from *how* it must perform (via standards or sectoral law), not reliant on integrated management, is favourable to competitive land markets.

Oppose

10.21 We oppose zoning systems that:

- Treat planning as a tool for household or population rationing (e.g. through dwelling quotas, managed growth areas, or development caps)
- Rely on discretionary or subjective constraints such as 'neighbourhood character', amenity values, or prescriptive design overlays that override 'as of right' development
- Retain ad hoc consent processes that create uncertainty, rent-seeking, and delays, or

based instruments (tradable permits, cap-and-trade, targeted levies) where many diverse users must be coordinated are more effective. It varies case by case – sometimes setting price rather than quantity is better, and vice versa. If unsure, choosing a tax or a cap hinge on what unknowns matter more: the expense to stop versus the damage should the activity continue. If cleanup costs are more unpredictable, a tax is safer; if harm from pollution is more unpredictable, a capped limit (with trading) is better – an idea that underpins emissions trading and fishing quota schemes. See Martin L. Weitzman, "Prices vs Quantities," *The Review of Economic Studies* 41, no. 4 (October 1974): 477-491, https://scholar.harvard.edu/files/weitzman/files/prices_vs_quantities.pdf; and Ragnar Arnason, "A review of international experiences with individual transferable quotas: an annex to Future options for UK fish quota management," *CEMARE Report*, no. 58 (University of Portsmouth, 2002), 1-2, https://www.forest-trends.org/wp-content/uploads/imported/cemare-report-58-anarson-itq-pdf.pdf.

- Use zoning to manage infrastructure sequencing, rather than leaving it to spatial planning to prepare for urban expansion and relying on pricing tools and delivery agencies for its provision.

10.22 These legacy features transform zoning from a cost-reducing institution into a politicised gatekeeping tool, suppressing competitive land markets and insulating incumbents, who impose significant prevention costs onto the wider society, free from challenge.

Recommendations (Specific Policy Area 3 – Standardised Template Zoning)

To ensure zoning supports abundance, affordability, and effective environmental management, the Initiative recommends to:

17. *Use template-based zoning as a proxy for externality management:* clearly define bulk and intensity limits uniformly, subject only to objective environmental and material externality thresholds, where this is net-beneficial over and above other mechanisms to strip out transactions cost, but without replacing market processes (overreaching).

18. *Use zoning to enable, not ration:* remove quotas, growth boundaries, or requirements to 'justify' development based on forecasts or council sequencing plans.

19. *Embed a presumption of permitted use:* development should be allowed by default unless material externalities demonstrably require management.

20. *Integrate zoning with modular regulation:* separate zoning templates under the Planning Act from technical performance standards in other legal instruments.

21. *Replace discretionary overlays with codified thresholds and predictable rules* to reduce rent seeking and improve compliance certainty.

22. *Ensure development envelopes reflect genuine limits*, not arbitrary constraints, and allow market actors to discover efficient density within those broadly permissive bounds.

23. *Embed a self-corrective trigger for determining land use* that requires councils to approve private plan changes (effectively a trustworthy, 'bankable rule' that developers can rely on) – that upzone at zoning boundaries when specified price discontinuities are met.

11. SPECIFIC POLICY AREA 4 – RESPONSIVENESS

Rethinking Responsiveness

11.1 The responsiveness policy, as currently framed in the *Discussion Document*, risks becoming a compensatory patch: an 'add-on' designed to counterbalance a planning system that otherwise continues to operate on a 'predict and provide' basis.

11.2 If the core architecture of the new planning system to be implemented remains tied to forecasting, sequencing, and staged enablement, then unanticipated or out-of-sequence development will always be treated as an exception. A dedicated responsiveness mechanism becomes necessary precisely because the system is not designed to be responsive by default.

11.3 But that is not the right place to start. A well-functioning system should not need to override itself to permit sensible development. Responsiveness should be the organising logic, not a remedial policy tool. If zoning is permissive, infrastructure is financeable, and beneficiaries of growth can assemble around opportunities, then development proceeds wherever constraints do not bind. Surprise is not a problem. It is evidence of functioning decentralised decision-making.

11.4 This is where Pillars 2 and 3 become indispensable. Responsiveness requires more than planning permissions: it requires the *power to move*. That power comes from two sources:

- Access to funding tools that are independent of council balance sheets (Pillar 2); and
- The legal right to organise into project entities with delivery powers (should be Pillar 3).

This is what creates credible threat of entry. It is not merely a matter of permissive zoning but critically depends on *the means to act* on it. It is what confers agency to human action. Responsiveness, in this sense, is not a matter of regulatory leniency; it is about *institutional capacity to act when value emerges*.

11.5 When the *Discussion Document* asks:

"Are mechanisms needed in the new resource management system to ensure councils are responsive to unanticipated or out-of-sequence developments? If so, how should these be designed?"

The answer is: yes, but the mechanism is not procedural override. It is structural. It is the *liberalisation of access to finance* and the *right to self-organise*. It means giving market actors the tools to act when councils prefer not to.

11.6 And when it asks:

"How should any responsiveness requirements in the new system incorporate the direction for 'growth to pay for growth'?"

The answer is: growth should pay for growth, but that does not mean 'exacerbator pays' in isolation. It means beneficiaries pay, which may include landowners, developers, infrastructure users, councils, and national government, depending on the nature of the good and the level at which value is captured.

11.7 Some infrastructure has private benefit; some has public benefit; most has both. Cost-sharing frameworks must be flexible, layered, and sensitive to scale and spillovers. Growth cannot be conditional on proving a developer can carry all costs alone (though they may raise the finance on behalf of beneficiaries and then socialise the funding needed for the debt raised). Nor should councils or central government be allowed to, by default, externalise their obligations onto landowners without contributing to systems-level value creation, unless there are willing payers.

11.8 Ultimately, the point of responsiveness is not to override a flawed system, but to build a system that does not need overriding: one that sets *rules from above* and confers *rights from below*; one that prepares for options, and then empowers communities and market actors to move toward them. That is responsiveness; that is threat of entry. It is necessary for achieving competitive urban land markets.

11.9 **Appendix B** draws on all Pillars to embed land assembly as a structural feature (not a mere 'add-on') of a new system, enabling responsiveness in brownfield (intensification) contexts.

Support

11.10 We support the recognition in the *Discussion Document* that councils must be responsive to unanticipated or out-of-sequence development. We also support the underlying principle that infrastructure should be delivered in a way that enables – not delays – growth. Responsiveness is an essential feature of a competitive land market, and it must be structurally embedded rather than administratively appended.

Oppose

11.11 We oppose any framing of responsiveness as a remedial override attached to a system that otherwise remains based on capacity forecasting, sequencing plans, and centralised development control. Responsiveness must not become a discretionary policy tool that councils grant sparingly. If the broader system continues to suppress bottom-up initiative, a responsiveness mechanism cannot meaningfully counteract that inertia.

11.12 We also oppose an overly narrow interpretation of 'growth pays for growth' as meaning exacerbator-only pays. This framing distorts accountability by externalising broader public infrastructure responsibilities. It risks overburdening developers with costs that properly belong to councils or national government where the benefits are shared, or when they can be socialised to beneficiaries of growth and there is willingness to pay.

Recommendations (Specific Policy Area 4 - Responsiveness)

To embed true responsiveness in the system's institutional design, we recommend:

24. *Liberalise access to infrastructure funding tools* – enable the use of pooled, value uplift-linked finance instruments (e.g. value capture bonds, tax increment finance) that do not rely on council balance sheet capacity. This requires reform of the IFF Act and parallel investment vehicles under Pillar 2.

25. *Legislate a right to self-organise* – allow landowners and developers to form special purpose governance entities (under Pillar 3) with rights to coordinate infrastructure delivery, planning permissions, and cost sharing within a defined project area.

26. *Presume responsiveness in system design* – remove zoning and development controls that depend on sequencing plans or infrastructure staging models. The system must allow development by default unless genuine, material constraints apply.

27. *Define 'growth pays for growth' in terms of layered cost sharing* – establish a framework in which all beneficiaries (public and private) contribute proportionally to infrastructure costs based on value uplift and benefit incidence. Avoid rigid formulas that expect developers alone and by default to underwrite systemwide investment.

28. *Enable developers to voluntarily take on the downside risk of development through upfront investment in bulk infrastructure (if follow-on development does not happen)* – in return for reaping the upside reward if that follow-on development comes through (benefit from revenue streams generated from the follow-on use of services provided upfront).

29. *Integrate responsiveness with zoning logic* – if Pillar 1 adopts permissive zoning templates (Tier 2) and spatial planning prepares corridors in advance (Tier 1), responsiveness becomes a natural system feature rather than a procedural bolt-on, if Pillars 2 and 3 are done right.

12. IMPLEMENTATION AND INTEGRATION

Embedding a System That Enables Threat of Entry

12.1 The *Discussion Document* outlines three interdependent pillars. Of these, Pillar 1 is a necessary precondition, but cannot succeed in isolation. If implemented without Pillars 2 and 3, it risks creating the appearance of abundance while maintaining the structural bottlenecks that prevent actual development. The threat of entry – *the central disciplining mechanism of a competitive urban land market* – cannot emerge unless the system confers real agency to act.

12.2 This requires a fully integrated system architecture:

- *Pillar 1* must legally entrench permissive, blanket-style zoning templates that enable development by default wherever genuine constraints do not apply. These templates must be designed to strip out transaction costs, not to manage land use via prediction.
- *Pillar 2* must liberalise infrastructure finance. This requires reforming the *Infrastructure Funding and Financing Act 2020*, creating new funding vehicles untethered from council balance sheets, and enabling cost-recovery mechanisms that are proportional, predictable, and independent.
- *Pillar 3* must expand its scope (beyond exogenous incentives) to empower collective action (harnessing endogenous incentives through congruence). Project communities and special purpose governance entities must be given legal form and operational authority. This includes the ability to raise finance, enter into agreements, and initiate development where councils cannot or will not act.

12.3 A system that merely enables land use on paper, while denying the ability to finance and organise development in practice, will fail to create credible supply. The risk is not just implementation failure, but conceptual incoherence: without the tools to act, rights to develop become illusory.

Required Legislative Alignment

12.4 The recommendations cannot be operationalised without revisiting a range of existing legislative regimes. At minimum, this includes the *Local Government Act 2002*, *Land Transport Management Act 2003*, and related statutes governing infrastructure finance, asset ownership, and cost recovery.

In particular:

- Primary legislation enabling project communities that benefit from growth to bypass New Zealand Local Government Funding Agency (LGFA) covenants that restrict council borrowing, using alternative funding and finance mechanisms, such as revenue bonds and value capture.

- Legal provision must be made for the creation and operation of special purpose vehicles that sit outside general local government constraints.

- *The Public Works Act 1981* already aligns with the mirror principle, because compensation is offset by betterment, but the protection of future options could be better enabled through more explicit and streamlined provisions in the LGA and PWA.[34]

Institutional Coordination

12.5 The success of any reforms depends on coordinated delivery across agencies. The Treasury, the Ministry of Housing and Urban Development (HUD), the Ministry for the Environment (MfE), Kāinga Ora, and Te Waihanga must be aligned, if not on the new paradigm for urban planning itself, then at least around a common implementation strategy that reflects the integrated logic of the Pillar structure. Without interagency alignment, sequencing failures, misaligned incentives, and policy drift will undermine reform.

13. CONCLUSION

Summary Position

13.1 The New Zealand Initiative supports the full system replacement of the current planning framework and the Government's ambition to enable competitive urban land markets. However, Pillar 1 proposals will only succeed if they are implemented as part of a genuinely integrated architecture.

13.2 Pillar 1 must also create development abundance and legally entrench permissive planning rules. But unless Pillar 2 provides independent access to finance, and Pillar 3 creates the right to organise and deliver infrastructure, abundance will remain notional. *Real change requires a system that confers both the right and the ability to act*.

Key Benefits

13.3 If our recommendations are adopted, the reformed system will:

- Enable development wherever it is net-beneficial and not constrained by genuine limits

- Remove institutional veto points that currently insulate incumbent landowners from market pressure

- Restore land price signals to reflect 'natural' land rends (aligned with infrastructure and environmental costs), reflecting the genuine economic value of the land

- Make spatial planning fiscally affordable by aligning compensation with betterment, and

- Create a platform for dynamic, decentralised development that restores housing affordability and contributes to improving productivity.

[34] Public Works Act 1981, section 62, Assessment of Compensation, https://www.legislation.govt.nz/act/public/1981/0035/latest/DLM46358.html

Closing

13.4 We appreciate the opportunity to submit on this phase of the Government's reform programme and commend the commitment to full system replacement. We would welcome the opportunity to appear before officials or ministers to discuss our recommendations in more detail, and to assist with the development of the supporting instruments required to make this reform agenda real.

ENDS

APPENDIX A – ECONOMIC CRITIQUE OF KEY BUILDING BLOCKS OF ZONING SYSTEMS

Mechanism	Original Rationale	Economic Critique
1. Land-Use Regulation	Define which uses (residential, commercial, industrial) are permitted, conditional, or prohibited to separate incompatible activities and protect public health, safety, and welfare.	Rigid segregation prevents beneficial mixed-use clustering, distorts the rent gradient, forces longer commutes, and reduces affordability and productivity. Limit use restrictions to clear, measurable externalities; otherwise let markets co-locate uses.
2. Dimensional Standards	Control setbacks, height limits, lot sizes, and build-to lines to ensure light, air, privacy, fire safety, and a consistent streetscape character.	Fixed form caps create artificial scarcity by capping density below what land value signals justify. Retain only essential safety and environmental clearances; allow form to respond to revealed market preferences.
3. Bulk Controls	Use Floor Area Ratio (FAR) and maximum coverage to regulate building mass and scale, preventing overdevelopment and protecting infrastructure capacity.	Hard FAR limits often sit below the market-equilibrium density, blocking vertical growth that rising land values support. Bulk controls should adjust with transport and infrastructure improvements rather than remain fixed.
4. Density Controls	Set ceilings on dwelling units per acre or population density to balance housing supply with infrastructure and environmental carrying capacity.	Arbitrary density quotas pre-empt market allocation of space. When demand exceeds these caps, prices spike and sprawl intensifies. Density should emerge from the interplay of land prices, transport costs, and infrastructure provision.
5. Overlays & Special Districts	Layer historic-preservation, floodplain, transit-oriented, or form-based overlays atop base zoning to address area-specific goals without redrawing the entire map.	Overlays fragment land markets and complicate price signals. Only genuine market failures (e.g. flood risk) warrant overlays; others risk becoming arbitrary design controls that distort market dynamics.
6. Performance Standards	Set outcome-based limits (noise, light spill, emissions) and design requirements (landscaping, screening, parking ratios) to safeguard neighbours' quality of life while allowing flexible form.	Performance standards target undesirable outcomes rather than prescribing form, aligning best with market-based planning. They represent the minimal, cost-effective means to internalise residual externalities.
7. Incentive Zoning	Offer density or height bonuses in exchange for public benefits (affordable housing, open space, public art), leveraging land-value gains to fund community assets.	Bespoke bonus negotiations can distort market signals. Simpler, transparent tools (like market-priced fees or tradable permit) better align development incentives with true externality costs.
8. Form-Based Codes	Allow negotiated, site-specific master plans, and Form-Based Codes that emphasise building form and public realm standards over uses.	Negotiations raise transaction costs and lack transparency; form-based codes, if over-specified, risk reinstating rigidity. Market signals should guide form, with only minimal, essential public law constraints.
9. Procedural & Financial Tools	Provide variances and conditional-use permits to relieve undue hardship, and impose impact fees, development charges, or exactions to recoup infrastructure costs and internalise externalities.	Procedural relief aligns with a graduated regulatory approach. Financial tools that transparently price true marginal infrastructure costs embody the minimal-rule planning ideal, provided they avoid political distortions.

APPENDIX B – A STATUTORY MECHANISM FOR BROWNFIELD LAND ASSEMBLY AND INTENSIFICATION

14. PROBLEM DEFINITION – BROWNFIELD RESPONSIVENESS GAP

14.1 New Zealand's current urban intensification challenge is not confined to unlocking greenfield land. Within the existing urban footprint, brownfield redevelopment often stalls despite permissive zoning, due to structural barriers:

- *Fragmented ownership* – sites suitable for higher density are subdivided among multiple owners with divergent interests.
- *Asymmetric benefit distribution* – some landowners capture most of the uplift from intensification, while others bear more of the disruption or cost.
- *Holdout and coordination failures* – any single owner can veto a comprehensive scheme, creating 'anti-commons' deadlock.
- *High upfront costs and uncertainty* – remediation, infrastructure upgrades, and tenant relocation increase risk and deter coordinated investment.

14.2 In greenfield contexts, credible threat of entry can be realised by making large, unconstrained sites at the periphery development ready. In brownfield areas, that disciplining mechanism is absent unless the institutional framework enables owners to assemble, reconfigure, and service land at scale without prohibitive transaction costs.

15. INTERNATIONAL PRECEDENTS

Germany – *Umlegung* (Land Readjustment)

15.1 Germany's Baugesetzbuch (Federal Building Code) provides for Umlegung, which is a statutory land readjustment process used both for suburban expansion and urban renewal. Under an adopted Bebauungsplan (binding local plan), land parcels within a defined project boundary can be compulsorily replotted into more efficient configurations, with proportional value allocation back to each owner.[35]

- *Decision process* – schemes are adopted by the municipality, with statutory procedures for participation and objection.
- *Holdout override* – once formally adopted, all parcels within the boundary are bound, with compensation for any net loss in value.
- *Infrastructure provision* – deductions ('land contributions') are made for public works, with costs and benefits shared among owners in proportion to gain.

Japan – Kukaku Seiri (Land Readjustment)

15.2 Japan's Land Readjustment Law enables landowners to form cooperatives (or have public agencies act) to replot land, dedicate portions for public infrastructure, and finance works from value uplift.[36]

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[35] Germany, *Baugesetzbuch* (Federal Building Code), esp. §§45-84 on *Umlegung*, https://www.gesetze-im-internet.de/bbaug/index.html#BJNR003410960BJNE010007116

[36] A further detailed discussion of cooperative-led land readjustment mechanisms (*kukaku seiri*) is also included in this citation. See Japan International Cooperation Agency (JICA), *Land Readjustment: Concepts*

- *Trigger* – typically requires a statutory consent threshold from affected owners (often two-thirds by land area or value).
- *Implementing body* – the cooperative becomes a special purpose entity with legal powers to replot, allocate new parcels, and levy charges.
- *Finance* – cost recovery is achieved through sale of reserve land created in the project and from betterment contributions.
- *Scope* – used for both greenfield expansion and urban renewal, including post-war reconstruction and transport-node redevelopment.

16. ALTERNATIVE APPROACH: COUNCIL-FACILITATED OPTIONS CONTRACTING

16.1 If government does not wish to adopt statutory land readjustment models akin to those used in Japan or Germany, a third pathway could be introduced that leverages options contracting and leverage councils' existing role as the registrar of property titles to facilitate redevelopment without compulsory land replotting powers.

16.2 Under this approach:

- *Developer or government-led proposal* – A developer, consortium, or public agency prepares a redevelopment proposal for a defined brownfield area where existing parcel configuration is a constraint.
- *Council as facilitator* – The council, using its access to the titles register and property records, acts as a neutral intermediary to contact all affected landowners within the proposed project boundary. Crucially, when the approach is made, landowners would not know which developer (or other entity) is seeking to acquire the land, which helps to suppress speculative hold-out behaviour and upward rent-seeking.
- *Offer of options contracts* – Landowners are offered an option to sell contract, granting the developer (or council, if acting as acquirer) the right, but not the obligation, to purchase their property at an agreed price within a specified time frame.
- *Immediate incentive for landowners* – The option itself is sold for an agreed upfront payment, which the landowner receives immediately. This payment is theirs to keep regardless of whether the option is later exercised, providing an instant financial benefit. If the option is exercised, the landowner also receives the agreed sale price for the property, creating a potential second financial gain.
- *Assembly through consensual contracting* – The options are exercised if and when a sufficient proportion of parcels are secured to enable the redevelopment to proceed.
- *Flexibility in sequencing* – Contracts can be structured to align with planning approvals, financing milestones, and staged redevelopment, reducing the risk and capital tie-up for the developer while providing owners with certainty over price and timing.

16.3 This mechanism retains voluntary participation and market-based negotiation while reducing transaction costs by centralising outreach and negotiation through the council's trusted role. It combines:

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and Practice in Japan, https://www.jica.go.jp/Resource/jica-ri/publication/booksandreports/l75nbg00000ltoak-att/LAND_READJUSTMENT_Chapter1_web.pdf

- *An immediate, bankable benefit* – the option premium for owners
- *Potential for a second windfall* – if the option is exercised, and
- *Reduced exposure to speculative gamesmanship* – because owners do not initially know which party is behind the proposal.

16.4 While it does not provide the same certainty or transaction cost compression as statutory land readjustment, council-facilitated options contracting could deliver many of the same benefits in areas where landowner cooperation is achievable, and could serve as a politically lower risk pathway to brownfield intensification.

17. MECHANISM FOR NEW ZEALAND – "BROWNFIELD RENEWAL GOVERNANCE RIGHT"

Overview

17.1 A statutory right of assembly for landowners in defined urban project areas, enabling them to initiate a land readjustment scheme through a supermajority vote, undertaken by a dedicated special purpose governance entity (SPGE).

Trigger

17.2 A double supermajority is required, meaning that a land readjustment project may be initiated when *both* of the following thresholds are met within the proposed project boundary:

- *Value threshold* – Owners representing at least 67% of the total capital value (as recorded in the latest district valuation roll); and
- *Number threshold* – At least 67% of individual landowners by count within the boundary.

17.3 This dual threshold ensures that initiation has both *capital-weighted legitimacy* (support from those with the largest financial stake) and *broad-based support* (a substantial majority of owners, regardless of holding size). It avoids situations where a small number of large-value owners dominate decision-making, or conversely, where a numerical majority with relatively low aggregate value forces obligations on the largest contributors.[37]

17.4 The vote authorises the formation of an SPGE with powers (set out in next section).

17.5 Once the vote passes, participation becomes binding on all owners within the project boundary, with statutory compensation and betterment set-off provisions applying.

Special Purpose Governance Entity (SPGE)

17.6 Constituted under primary legislation as an incorporated body with a defined mandate to deliver the land readjustment scheme authorised above.

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[37] Urban Land Markets Group, "How We Supply Infrastructure Makes Housing Unaffordable: Introducing a New Approach to Funding and Financing Our Cities," *Economic Policy Centre, Urban and Spatial Economics Hub*, Policy Paper No. 003 (Auckland: The University of Auckland Business School, 2021), 59, https://www.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/Economic-Policy-Centre--EPC-/USEPP003.pdf

17.7 Membership comprises all landowners within the project boundary, with representation and voting rights determined by the statutory framework.

17.8 Core functions and powers:

- *Replotting and reallocation* of parcels in proportion to pre-scheme value, ensuring equitable treatment of all owners.
- *Deduction of land or value* for public infrastructure, open space, and other agreed common purposes.
- *Betterment and compensation management*, applying the mirror principle to net off uplift against loss.
- *Levying of betterment charges* or other agreed contributions to fund scheme costs.
- *Raising of independent finance* (Pillar 2), secured against projected value uplift, including issuing revenue bonds (non-GO finance) or entering revenue capture agreements.
- *Contracting powers* to procure design, construction, infrastructure, and service delivery.
- *Cost-sharing agreements* with public agencies and utility providers.
- *Coordination with Council* and other statutory bodies solely for matters of genuine, demonstrable externalities, with no dependency on sequencing or discretionary 'character' controls.

Statutory Override

17.9 Once the supermajority vote is certified, participation is binding on all owners within the boundary.

17.10 Holdouts are compensated for any net loss after betterment set-off.

17.11 All works must comply with objective externality thresholds under Pillar 1's permissive zoning template.

Checks and Balances

17.12 Net-benefit test at initiation – demonstrable allocative efficiency.

17.13 Independent audit of valuation and reallocation process.

17.14 Council retains regulatory oversight only for genuine, demonstrable externalities, not for sequencing or subjective 'character' controls.

Integration with the Pillar Framework

17.15 *Pillar 1* – Enables redevelopment by right up to externality thresholds; defines spatial and performance envelopes.

17.16 *Pillar 2* – Provides SPGEs with access to pooled, value-linked finance independent of council balance sheets.

17.17 *Pillar 3* – Embeds the right of assembly for urban renewal, ensuring that those who benefit can organise and act without reliance on council initiation.

Benefits

17.18 *Transaction cost compression* – moves from unanimity to a workable supermajority, as in Germany and Japan.

17.19 *Legitimacy* – consent of a substantial majority, with fair compensation and betterment accounting.

17.20 *Market responsiveness* – enables rapid activation when market conditions change, without waiting for long-cycle public planning.

17.21 *Alignment with international best practice* – proven models exist in jurisdictions with strong property rights traditions.

Local Precedent – Wellington's Business Improvement District (BID) Framework

17.22 A relevant precedent for the proposed Brownfield Renewal Governance Right exists in the Wellington City Council's Business Improvement District (BID) policy.38 Under this framework, property and business owners within a defined geographic boundary can, by majority agreement, form a BID Association as a special purpose governance body.

17.23 The BID is funded through a targeted rate levied by the Council on non-residential properties within the BID area, with the proceeds ring-fenced for agreed local programmes and improvements. These may include public realm upgrades, safety initiatives, marketing, or infrastructure that enhances the value and function of the district.

17.24 The BID model demonstrates that New Zealand already operates statutory, boundary-based governance and funding models that coordinate multiple property owners for collective benefit. Table 3 compares this model to the proposed Brownfield Renewal Governance Right.

Table 3: *The Interdependency Between Reform Pillars*

Element	BID Framework	Brownfield Land Assembly Mechanism
Defined Boundary	BID area demarcated under Council policy	Project area demarcated in statute for land readjustment
Special-Purpose Governance	BID Association with elected board	Special Purpose Governance Entity (SPGE) formed by supermajority of owners
Funding Mechanism	Targeted rate on non-residential properties	Betterment contributions or value capture financing
Collective Action	Businesses coordinate to deliver shared improvements	Landowners coordinate to replot, service, and redevelop land
Council Role	Approves BID, collects targeted rate, oversees alignment with policy	Approves scheme on statutory criteria, retains oversight for externalities

[38] Wellington City Council. *Business Improvement District (BID) Policy*. Wellington, 2020. https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/business-improvement-district-policy

17.25 In fact, New Zealand's history is characterised by extensive use of special purpose governance entities (SPGE) for local infrastructure and services, with 453 such bodies operating prior to their abolition in the 1989 reforms. These vehicles were prolific because they were effective, relatively easy to establish, and often delivered major projects when territorial authorities lacked capacity (resources or inclination) to deliver major infrastructure.

17.26 This history provides a clear governance precedent for extending similar logic into brownfield residential or mixed-use redevelopment, where coordinated land assembly and servicing are required. Central government's Officials Coordinating Committee, the body that ultimately abolished SPGEs in the 1989 reforms, acknowledged that SPGEs worked and had been critical to New Zealand's infrastructure supply – they just preferred the 'simplicity' of a governance landscape that holds centralised control over development and finance.[39]

17.27 The fact that Wellington already uses a statutory, collaborative structure to deliver uplift in business districts through the BID framework underscores that special purpose, area-based governance can be both workable and legitimate within New Zealand's planning environment. Applying this governance logic to brownfield redevelopment would simply extend a proven local model from commercial revitalisation to coordinated urban land recycling.

Legislative Requirements

- Amend the Urban Development Act or new *Planning Act* provisions to:
    - Define SPGE status, powers, and governance.
    - Set consent thresholds and procedural safeguards.
    - Integrate mirror principle cost-sharing and compensation provisions.

[39] Urban Land Markets Group, "How We Supply Infrastructure Makes Housing Unaffordable: Introducing a New Approach to Funding and Financing Our Cities," 66-67.