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Environment Committee  
Parliament Buildings  
Wellington

Madam Chair,

**SUBMISSION ON BIPARTISAN HOUSING BILL**

1. I write to support the Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill, hopefully as a prelude to a broader suite of regulatory reforms affecting the housing, land, and construction sectors. I will also propose a set of changes which should be integrated with the Bill. My support should not be read as conditional on these changes. Rather, they would enhance an already-welcome Bill.
2. I am a New Zealand citizen resident in Singapore. I am currently reading for a degree in economics at Yale-NUS College, a joint venture between Yale University and the National University of Singapore. I submit in a personal capacity.
3. Before I begin my substantive comments, I wish to commend the Government and Opposition for working together constructively in the national interest on this all-important issue. It is no exaggeration to say that if New Zealand does not get housing policy correct, few other policy measures will be able to save us from the economic and social consequences.
4. I shall cover the following topics in turn:
  - 4.1. An economic rationale for supporting the Bill.
  - 4.2. A recommendation that the Bill provide councils with fiscal incentives to encourage construction and fund infrastructure growth.
  - 4.3. A recommendation that the Bill remove limitations on building which are not explicitly aimed at reducing the external costs of densification.
  - 4.4. A recommendation that the Bill require councils to consent 'mixed-use' developments which retain a broadly-residential character.

- 4.5. A recommendation that the Bill create a right for property owners to increase allowable building on their street beyond planned levels through a street-by-street voting process (*street votes*).

### **An Economic Rationale for the Bill**

5. The Committee will have received plenty of persuasive submissions emphasising the human costs of the housing crisis, which are severe. I will not cover this ground again. Rather, I wish to present the strong economic evidence that failing to reform housing will hold down real per-capita incomes.
6. Excessively strict planning laws introduce distortions in where people choose to live. Rather than being able to move into prosperous cities where they can be more productive, housing supply constraints trap people in the places they can afford. Economists, in their ascetic way, call this the *spatial misallocation of labour*.
7. Even within cities, these misallocations can be severe. Planning laws mean that people are forced to live where the predilections of planners or the prejudices of property owners say it is acceptable, rather than where they would choose to. That means high-growth areas are starved of workers, while land in the very same areas lays un- or under-used.
8. There is strong evidence that these spatial misallocations are economically significant. A well-known paper by Hsieh and Moretti<sup>1</sup> found the spatial misallocations due to land use restrictions like zoning in the United States were responsible for significantly lower growth from 1964 to 2009. They predicted that relaxing the zoning controls in only New York, San Jose, and San Francisco to the median level of an American city over that period would have increased the average American's annual earnings by US\$3,685 (NZ\$5,230) in 2009. New Zealand's largest cities are also restrictive in their zoning laws and more productive than elsewhere in the country. Moreover, they account for a much larger share of our population than those three cities do in the United States. Thus, effects of an even-larger magnitude might be expected here.
9. Beyond the aforementioned efficiency concerns, housing supply constraints may also alter the distribution of income, by altering the power balance between employers and employees and landlords and tenants. If employees or tenants cannot credibly threaten to move to another job or house in another suburb or city because the lack of housing supply restrains their mobility, they cannot engage on a level playing field during negotiations with their employer or landlord.

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<sup>1</sup> Chang-Tai Hsieh and Enrico Moretti, "Housing Constraints and Spatial Misallocation," *American Economic Journal Macroeconomics* 11, no. 2 (2019): 1–39.  
<https://www.aeaweb.org/articles?id=10.1257/mac.20170388>

## **Fiscal Incentives**

10. The Bill, though it significantly reduces the scope for council discretion, does not eliminate it entirely. Thus, local governments – who will be forced to bear many of the costs of density – may be able to frustrate the Government and Opposition’s intent to some extent through other channels (e.g., building consents and heritage listings).
11. I am sure that the submissions from Local Government New Zealand and each individual council will go into excruciating detail about the costs which this Bill might impose on them. Thus, one example – councils’ joint and several liability for building faults, which makes councils inherently cautious about increasing the number of dwellings for which they are liable – will suffice.
12. This natural resistance might be reduced by providing councils with additional fiscal incentives to increase housing supply. Simply put, make housing pay.
13. A variety of options exist for sharing the fruits of housing growth with councils. However, one particularly attractive option is to share GST revenue from construction with the relevant consenting authority. This could be legislated for easily in this Bill, although it would obviously require the approval of the Minister of Finance.
14. Thus, **I recommend** that the Committee add provisions to the Bill which implement some kind of pro-housing fiscal incentive for councils.

## **Removal of Private Provisions**

15. Many of the limitations on development included in the Bill (e.g., the requirements in sections 12-15 of schedule 3A) appear primarily aimed at ensuring the private amenity value of the dwelling being developed, rather than rectifying or mitigating the legitimate concerns of external parties.
16. Beyond a particular subjective vision which members might have of what a ‘good house’ ought to look like, it is unclear what interest Parliament has in ensuring that everyone has at least a minimum deck or lawn size (see section 14 of schedule 3A), especially when such decks could come at the cost of additional interior space. Similarly, building coverage areas are difficult to justify when legislated setbacks already exist to protect neighbours.
17. Such trade-offs should not be made by Members of Parliament on behalf of all of their constituents at once. Rather, they should be left to the individual decision-making of architects, landlords, and homeowners. Many of them might have different tastes and preferences to MPs and the officials that advise you. If poor decisions are made, the value of the property (both to live in and for resale) will suffer. Thus, such decisions are unlikely.

18. Thus, **I recommend** that the Committee remove sections in the MRDS which cannot be justified in terms of their impact on others (e.g., the requirements in sections 12-15 of schedule 3A).

### **Enabling Mixed-Use Development**

19. The Bill as it stands significantly increases property-owners' ability to build residential dwellings on their land, however, it makes no similar allowance for small-scale commercial locations.
20. Adding small commercial components (e.g., convenience stores and cafes) to a broadly residential development can significantly increase the attractiveness of the property to customers and to existing residents, who can also enjoy the services. Moreover, it allows land to be utilised for longer, rather than lying essentially empty during the workday.
21. Moreover, adding an allowance for a modest commercial presence ensures that the damage from a mistaken planning decision to designate as residential land which would be better used for commercial purposes will be lessened.
22. Therefore, **I recommend** the Committee extend section 2 of schedule 3A to include as a 'permitted activity' small-scale commercial or retail activities that do not pose an undue burden on neighbours. Naturally, houses developed as part of the same project as a commercial development should not be included in the definition of neighbours for that purpose. After all, any reduction in amenity value for those houses will be borne by the developer and it is best left up to them to make any trade-offs.

### **Street Votes**

23. Though the Bill does significantly increase the allowable density in much of the country, it could create an even larger increase by allowing particular streets to opt into higher density zoning rules, through a democratic vote.
24. This policy resembles (but does not exactly replicate) that which was advocated for by the think-tank Policy Exchange in the United Kingdom in their report *Stronger Suburbs*<sup>2</sup>.
25. The policy recognises that the primary purpose of many modern housing regulations is to protect neighbours from nuisance and congestion caused by an increase in density. If those neighbours themselves wish to extend to their neighbours (and themselves) the right to create such problems, they should be entitled to do so.

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<sup>2</sup> Samuel Hughes and Ben Southwood, *Strong Suburbs: Enabling Streets to Control Their Own Development* (London: Policy Exchange, 2021), <https://policyexchange.org.uk/publication/strong-suburbs/>.

26. There are strong theoretical reasons to expect that many streets in in-demand areas would take up the option of increasing allowable density on their street.
- 26.1. Consider the case where other streets in the suburb had voted against the densification of their street. If your street also voted against, nothing would change. However, if your street voted to allow density, it would instantly become the most ‘developable’ street in the suburb. Land valuations would likely skyrocket, making property-owners significantly better off and likely compensating them for any costs of density imposed on them by their neighbours.
- 26.2. Alternatively, consider the case where most other streets in the suburb voted to legalise density. If your street chose not to increase density, the value of your land would be much lower than that of residents in neighbouring streets – after all, more than one house could be built on their section. By contrast, by voting to allow density, you would maintain the relative value of your land.
- 26.3. Whatever the decision of the neighbouring streets, therefore, generally the correct approach is to vote to legalise density. A game theorist would call this the *dominant strategy*.
27. If entirely implementing this proposal in the Bill would be infeasible at this late stage, I **recommend** provisions be added requiring councils to at least prepare for the implementation of such a system. For instance, councils could be required to submit to the Minister a list of ‘street constituencies’ into which they suggest their city should be divided for the purposes of street votes. More broadly, I commend the policy for general consideration.

### **Conclusion**

28. The changes I have recommended will turn what is already a good Bill into a better Bill. They will expand New Zealanders’ ability to choose where they live, and they may well make us richer.
29. I hope the Committee was assisted by my submission. As a young New Zealander who wishes to someday own a home in my country of birth, I very much hope this Bill, with whatever improvements the Select Committee makes, will contribute to once again making New Zealand an affordable place to live.

Kind regards,

Mitchell Palmer