WAIKATO COMMUNITY LANDS TRUST

bridge housing

building pathways to affordable homes

Habitat for Humanity®
Central Region New Zealand

WAIKATO HOUSING INITIATIVE

MOMENTUM WAIKATO
Te Puaawaitanga o Waikato

Submission on Plan Change 3

To: Waikato District Council

Names of Submitters: Waikato Community Lands Trust

Bridge Housing Charitable Trust

Waikato Housing Initiative

Habitat for Humanity Central Region Limited

Momentum Waikato

Date: 28 October 2022

Preliminary Matters

A. This is a submission on Waikato District Council's Proposed Plan Change Variation 3 (here called "Plan Change 3" or "PC3"). The submission is broadly in support, but seeks additions and amendments.

B. None of the submitters could gain an advantage in trade competition through this submission.

C. The submission relates to the provisions of Plan Change 3 that are described below, and seeks additions and amendments to Plan Change 3 to provide for inclusionary zoning.

D. The submitters wish to be heard in support of the submission. The submitters intend to present jointly and are willing to consider presenting jointly with others at a hearing.

Introduction

1. It is the collective view of the submitters that Plan Change 3 should include plan provisions that enable inclusionary zoning (IZ) within Waikato District.

2. Much of the hard work supporting IZ has already been done, through the work of both local councils and the Queenstown Lakes District Council. Reference is made to the report from Hill Young Cooper,[1] as well as work done by other councils and their consultants. IZ has been on the agenda for some time – and the time for implementation is now, within Plan Change 3. This submission sets out:

   a. Background issues.
   b. Responses to objections.
   c. Comments on key issues.
   d. Suggested plan provisions.

Background Issues

3. IZ will not be new idea to Waikato District Council. The HYC Report is now 12 months old. Among other things, the HYC Report identifies that IZ is a pathway to increase the supply of affordable housing; that there is a mismatch between supply and demand, in terms of the kind of supply that is delivered by the market; and that it is important that IZ is implemented with a clear purpose and with clear requirements. The HYC Report recommends the introduction of IZ, and recommends an approach that is easy to understand, mandatory, broad, and with low transaction costs (pages 3-4).

4. The HYC Report was not developed in a vacuum: the Waikato region is served by various entities with strong interests in shifting the dial on housing, including the Waikato Community Lands Trust, Bridge Housing Trust, the Waikato Housing Initiative, Habitat for Humanity, Momentum Waikato, and many others.

[1] Hill Young Cooper, "Waikato Affordable Housing: Issues and Options", September 2021, here called the "HYC Report".

5. Housing affordability issues in Hamilton, Waipā, and the Waikato District are stark and dire. These issues are identified in the HYC Report (pages 14-15); and in the recent work of central government's Housing Technical Working Group.[2]

   a. Over the period from 2002 to 2021, house prices have increased by 372% across the region. Deposit affordability has declined, and land supply has not kept pace with demand (Working Group Report, page 4).
   b. Home ownership is declining rapidly, down to 54% in Hamilton in 2018, with lower ownership rates among Māori and Pasifika. Rents have also increased significantly, adversely affecting affordability. While there is some evidence of increased supply, there can be mismatches around the kind of supply that is delivered (HYC Report, pages 15-17).

6. It is generally acknowledged that housing supply focuses on mid to high end housing, with few players focused on affordability, and that increased supply does not necessarily lead to the 'filtering' necessary for affordability (HYC Report, pages 45-46). It has been evident in other areas that increases in overall housing supply do not necessarily deliver increases in affordable supply, especially not in the short term.[3] Affordability issues in the region have been steadily worsening since 2010, and not enough houses are being built at the lower end of the market. There is also a need for more secure tenure options for renters, in order to maintain social capital (HYC Report, pages 23, 29, 32).

7. The HYC Report also notes that the NPS-UD requires attention to homes that meet the needs of households in terms of type, price, and location (page 40). Delivering better outcomes for our communities requires that affordable housing be delivered – not just "choice", or "options" (though these are important), but real affordability.

Responses to Objections

8. IZ is an important response to these affordability issues: not a 'silver bullet', but a tool in the toolbox that Council should utilise through Plan Change 3. The Working Group acknowledges that there is no simple solution to our housing issues (page 9), and the Sense Report agrees that no one policy tool can alleviate affordability on its own (page 17).

9. Therefore, utilising all available tools is critical. As the HYC Report notes, IZ is not a 'quick fix', and is instead a long term strategy (page 46). The submitters agree, and believe now is the time to start that strategy. We have the lands trusts ready; we have the model plan provisions available. Now is the time for action.

10. It is acknowledged that there are various objections to IZ, but the HYC Report and other documentation amply deal with these. The HYC Report contains an analysis of benefits versus costs, and shows that many objections are not supported by empirical evidence, but are rather hypothetical. The Sense Report highlights that the economic benefits for the Queenstown Lakes District of IZ are estimated to exceed $100m (page 1, 23). Literature

[2] Housing Technical Working Group, "Assessment of the Housing System: with insights from the Hamilton-Waikato Area", 18 August 2022, here called the "Working Group Report".
[3] Sense Partners, "The economic case for Inclusionary Zoning in QLDC", 21 October 2020. Here called the "Sense Report", page 9.

cited in the HYC Report shows that IZ works (South Australia is a good example, at page 53), will be accepted by the market, and is best done through RMA-based methods (pages 47-50) – such as Plan Change 3. The Sense Report emphasises that overseas evidence is that IZ will increase the stock of affordable housing units, and have wider social and economic benefits. Further, then implementation of IZ policies does not necessarily mean any discernable impact on housing supply overall, nor have any adverse impacts on develop or developers, as long as the IZ mechanisms in place are clear and consistently applied (Sense Report, pages 17 – 22).

11. The view of the HYC Report and the submitters is that IZ is both lawful and justifiable. The submitters agree: they do not see any substantive legal objection to IZ, as long as it is done properly.[4] One point which the submitters wish to note is that we feel that in the Waikato context, affordable housing requirements are not that controversial, and there is not likely to be widespread opposition. While there may not be universal support in the development community, many significant developers have already agreed to IZ policies (through plan changes or SHAs), or have supported affordable housing in other ways (such as through affordable housing developments). Outside the development community, support is likely to be universal, as IZ is about a hand-up to those in need, not a hand-out, and there is widespread recognition of community need.

12. As both the HYC Report and the Sense Report put it, common criticisms of IZ are conceptual rather than empirical, and purported problems are not evident in practice. It is also worth noting that there are limited appeal rights for Plan Change 3. The time for IZ is now.

13. We cite these points to emphasise that much of the hard work on IZ has already been done. There is no place for hesitation or scaremongering about the impacts of IZ when it is so well supported by expert research, overseas experience, existing data, and practical need. Affordable housing needs support, and IZ – which is best implemented through Plan Change 3 – is one way to help do this.

Key Issues

14. The HYC Report makes various recommendations for Hamilton City and the Waikato and Waipā Districts. The submitters comment on these as follows, noting that model plan provisions can be based on the Queenstown provisions, as below.

Issue	**HYC Report Recommendation**	**Submitter Comments**
Implementation of IZ through RMA	Use of RMA recommended by HYC (page 66).	Supported by submitters. We recommend including IZ in Plan Change 3.
Mandatory or voluntary?	Mandatory scheme recommended (page 66)	Supported by submitters.
Affordability definition	Targeted at 80-120% of median income recommended by HYC (page 66)	Supported by submitters, with a qualifier that there is extensive need below this level as well.

[4] The lawfulness of IZ under the RMA is confirmed by the QLDC's opinion from Meredith Connell dated 7 July 2021. This is supported by legal advice obtained by the submitters, and the NPS-UD.

Greenfields first or greenfields and brownfields together	Greenfields first recommended by HYC (page 71)	Submitters support IZ across greenfields and brownfields developers.
Quantum of requirement	10% of lots or financial contribution of equivalent value recommended by HYC (page 72)	Submitters support up to 10% of lots or equivalent payment, and suggest 5% as a fixed figure, with preference for land. Land or payment should track through to Lands Trust[5] (not remain with Council).
Retention requirements	Transfer of land to Lands Trust, supported by covenants if necessary (page 68)	Supported by submitters, who note ability of Lands Trusts to retain land in perpetuity in some cases to ensure land remains permanently available for affordable tenure.
Geographic spread	Consistent approach across Hamilton, Waikato, and Waipā Districts supported by HYC (page 68)	Supported by submitters.
Monitoring	HYC notes some monitoring needed if retention mechanism used (page 71)	Submitters note Lands Trusts can support monitoring and retention.
Further steps to gather support	HYC recommends further steps to build support	Submitters recommend action be taken now, in PC3, based on proposed plan provisions.

15. The Waikato region has a very connected housing ecosystem, led through the Waikato Housing Initiative. There are two established lands trusts – the Waikato Community Lands Trust, and the Bridge Housing Trust, which are working collaboratively with other players in the ecosystem to advance affordable housing models and which provide mechanisms for including perpetual land ownership for retained affordability. The submitters see these two Lands Trusts as continuing to work collaboratively together and with others to ensure the effective implementation of IZ.

Suggested Plan Provisions

16. Queenstown Lakes District Council has recently prepared model plan provisions relating to IZ: these are contained at pages 37 - 45 of a further report done for Queenstown.[6] The submitters recommend adoption of these plan provisions, with only a few key changes. These can be integrated into PC3 by way of additions, particularly around financial contributions.

[5] For these purposes, a Lands Trust can be defined as "A registered charity recognised by Council as a suitable entity to hold land in perpetuity for affordable housing".

[6] Hill Young Cooper, *QLDC PDP: Affordable and Community Housing Chapter – Working Paper: Developing an Affordable Housing Provision*, June 2021.

Issue or Change	Reason
Strategic Policy 3.3.40	Ideally, the transfer of land or money should be to a Lands Trust (see below), not Council, but if the land/payment is a financial contribution that should go directly to Council, then this could be left as is, with Council then transferring the land/money to a Lands Trust. Having land or money go directly to a Lands Trust will both provide an efficient process and help build community support.
Section 40.1, para 2.	This should be adapted, as some points (such as intrinsic and scenic values, and rates of visitor accommodation) are lower in the Waikato. The supporting policies at 40.2.2 and 40.2.3 should also be adapted accordingly.
Policy 40.2.4, Rule 40.4.5, and Rule 40.9.1	While Kaainga Ora housing should be excluded, there is no need to exclude managed care units, small units, or boarding houses. The policy and rule should be amended accordingly. However, if a decision is made to retain these exclusions, then these do not need to change.
Policy 40.2.6, Assessment Matter 40.10.1.2	These preference a monetary contribution over the provision of land. The view of the submitters is that provision of land will better help achieve 'pepper potted' affordability throughout the city/district, and help focus development on methods to achieve affordability.
Rule 40.11.1.1	A covenant would be preferred to a consent notice, and such covenant should preference the position of a Lands Trust.[7]

17. The submitters seek that PC3 be amended to achieve the implementation of IZ as above, and such consequential changes to give effect to these points.

18. The submitters are willing to meet to discuss this submission further.

On behalf of the submitters, 28 October 2022

[7] As per above, for these purposes a Lands Trust can be defined as "A registered charity recognised by Council as a suitable entity to hold land in perpetuity for affordable housing".

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QLDC PDP: Affordable and Community Housing Chapter

Working Paper: Developing an Affordable Housing Provision

June 2021

Prepared by David Mead, Hill Young Cooper Ltd

Status

This working paper has been prepared by David Mead, Hill Young Cooper Ltd, to assist with policy development associated with affordable housing. The matters addressed and draft plan provisions attached are not council policy.

Contents

Introduction

Queenstown Lakes District Council (QLDC or the Council) is considering whether the Proposed District Plan (PDP) should contain provisions relating to affordable housing. In particular whether there should be a requirement on new housing developments to incorporate affordable housing in the form of residential lots or units sold at an affordable price, or through the transfer of land or money to the Council for the purpose of providing affordable dwellings.

Councillors have indicated support for the objective of increasing the supply of affordable housing through both ensuring adequate capacity to meet future housing demands overall, as well as measures aimed at securing a portion of that housing in an affordable price bracket. Council has sought that several options should be considered, with a preference for supporting the delivery of affordable housing through the Queenstown Lakes Community Housing Trust (QLCHT).

District Plan-based methods will sit alongside a range of measures that the Council takes under the Local Government Act to support the provision of affordable housing. District plan-based measures are only part of a response to the much wider and systemic issues associated with housing.

An Issues and Options paper has been prepared. This sets out the broader context for affordable housing and Resource Management Act (RMA) plans; past and current experience in Queenstown Lakes District (QLD) as well as high level options. It discusses a range of affordable housing programmes applied in North American mountain resorts, as well as metropolitan areas in the US, Australia and the UK.

The Issues and Options paper recommends that an Inclusionary Zoning (IZ) type approach be advanced, whereby all residential development be required to incorporate affordable dwelling lots or units in the development (a 'requirement'); or make a financial contribution (a 'contribution') to the Council to fund the provision of affordable housing by the QLCHT.

This working paper identifies a range of technical issues that need to be considered when formulating any affordable housing requirement or contribution. These include:

- Greenfield versus brownfields developments
- Rural residential, rural lifestyle or resort developments
- Requirement trigger and exclusions
- Quantum of requirement or contribution
- Specific issues with a requirement or a contribution.

Attached are 'indicative' plan provisions that address these matters, for discussion purposes.

Covid 19 observations The COVID-19 pandemic has substantially changed the housing context in QLD due to a reduction in economic activity and expected population growth over the short to medium term. Economic forecasts vary about the duration and extent of the impacts of Covid 19, particularly on the housing market both across NZ and within QLD. The fundamental drivers of lower than average wages and higher than average house values and rental remain even as the economy slows due to Covid 19.

Background to Affordable Housing

Affordable housing (sometimes referred in the QLD context as Community Housing) is generally defined to be housing where a low-or moderate-income household spends no more than 35% of their gross income on rent or mortgage (principal and interest) repayments[1].

Community Housing is defined in the Operative Queenstown Lakes District Plan to mean a residential activity that maintains long term affordability for existing and future generations through the use of a retention mechanism, and whose cost to rent or own is within the reasonable means of low- and moderate-income households.

The ODP defines a low-income household as having less than 80% the district's median household income, and a moderate-income household as having between 80 and 120%.

Housing affordability covers both rental and ownership affordability. The focus of any planning-based affordable housing policies and methods is on increasing the supply of housing that is affordable, whether that be via rental, full ownership or some form of assisted (or progressive) ownership in conjunction with a Community Housing Provider. In all cases, as signalled by the definition in the District Plan, some form of retention mechanism is required to ensure that over time the affordable housing provided is directed at low to moderate income households, and that this 'resource' remains available to future households with similar needs. Retention mechanisms may involve a cap on annual rental or sale price rises and/or a requirement for on-sale or rental only to buyers who meet affordability criteria and/or ownership by a Community Housing provider.

Affordable Housing Programmes

In response to what may be termed 'structural' issues with housing markets, a number of planning tools can be used, such as Linkage Zoning (LZ) and Inclusionary Zoning (IZ), to increase the supply of affordable houses. These types of mechanisms are explained further in the Issues and Options paper.

IZ has a focus on residential development, while LZ focuses on employment generated by business and commercial development and resulting housing needs.

The long-term impact of affordable housing requirements on the price and quantity of housing provided through development is a matter of debate. These issues are discussed in the Issues paper and explored further in this Working Paper. There are transaction costs involved in affordable housing requirements (for example, additional costs in preparing and processing applications), while there can be transitional effects on the feasibility of development as new policy takes effect. Long term, some forms of development may become infeasible from a development perspective if any requirement or contribution is significant in scale, or poorly targeted.

[1] Mayoral Taskforce Report 2017

Whatever RMA-based option is selected, it is generally held that well-structured and clear requirements help to address some of the costs and risks involved in affordable housing provisions. It is also necessary to take a long-term view of the rate at which affordable housing stock is built up. Planning-based solutions will not deliver an immediate benefit.

Affordable housing programs can be divided into two broad types, being general, mandatory requirements and case-by-case assessments. The two approaches have grown out of two different development contexts:

- Most often mandatory schemes apply to greenfields developments where any requirement is 'up front' and can be easily factored into development feasibility assessments.
- In the UK, and in a number of US and Australian cities IZ programs for already built-up areas tend to be based on negotiation on a case-by-case basis, within a supportive policy framework[2].

The two sets of programs differ in at least two ways:

The "greenfield" programs typically impose the inclusionary obligation on virtually all private residential developments of a certain scale, including those that are completed under as-of-right provisions. They also typically fix all of the fundamental requirements (whether they involve land, serviced sections or houses) in a set of rules. An issue for QLD is whether rural-residential and resort style development should be part of any policy, given the prevalence of this type of development in the district. The district also has a number of outlying settlements.

The "brownfield" programs, on the other hand, have been applied mainly (but not entirely) to residential developments that obtain additional development rights through a resource consent or re-zoning. Also, they allow for determining the appropriate contribution – including density increases to off-set costs – on a negotiated, case-by-case basis. This is so as not to discourage brownfields redevelopment, which may be financially marginal but desirable from an overall planning policy point of view.

Alongside the greenfields/brownfields distinction, affordable housing policies vary between:

- A requirement that lots and/or units be sold at an affordable price (either to eligible buyers or to identified housing providers), or
- A financial contribution be provided to Council's for the purpose of affordable housing provision (sometimes called a mitigation fee).

QLD Housing Development Context

Greenfields and Brownfields growth

In QLD approximately two-thirds (67%) of the housing capacity enabled by the PDP is planned to occur within the greenfield urban areas included within the various urban growth boundaries (UGBs) across the district. The Proposed District Plan (stage 1) enables up to 18,200 dwellings within the greenfield areas, two-thirds (12,200 dwellings) of which are included within areas where structure

[2] Review of best practices in affordable housing. Prepared by Tim Wake for Smart Growth BC.

plans or subdivision plans exist[3]. However, over time, an increasing proportion of dwellings will be delivered via redevelopment of brownfields areas.

The data in the following table is sourced from the Council's 2017 Housing Capacity Assessment report[4]. The estimate of capacity is based on the proposed district plan as notified. Subsequent assessments will reflect changes to zoning arising from submissions and appeals.

Table 1: Dwelling capacities: proposed district plan

	Greenfield urban	Other urban (e.g. Brownfield)	Total Urban
Plan enabled capacity (excluding redevelopment)	18,590	9,060	27,650
Plan enabled capacity (including redevelopment)	18,590	19,760	38,350

Planned capacity (excluding redevelopment) includes in the brownfields capacity figures infill type development in existing residential areas; for example where a house is built at the back of an existing dwelling. Plan-enabled capacity with redevelopment involves assumptions around the removal of existing dwellings and their replacement with terraced housing or apartments.

The report's assessment is that feasible redevelopment capacity (what is likely to be built) is less than plan-enabled capacity.

It is projected that QLD has feasible capacity for an additional 19,200 dwellings within its UGBs and 19,400 dwellings within the total urban environment in the short-term, excluding the potential for redevelopment. It is estimated that over half (56%; 10,800 dwellings) will be within the greenfield areas, with 8,400 commercially feasible dwellings within existing urban areas.[5]

Over time, further plan-enabled capacity will become feasible. In particular it is reasonable to expect brownfields urban sites with enabling zoning will be redeveloped on a site-by-site basis, with existing houses being removed and replaced with a range of dwelling typologies and densities. There are also options to add small flats and accessory units.

The 2017 Housing Capacity Assessment estimates that QLD will have commercially feasible capacity for an additional 23,900 dwellings within its UGBs and 24,200 dwellings within the total urban environment in the medium-term (to 2026)[6]

The 2017 Mayoral Taskforce on affordable housing reached the view that it would be beneficial to move towards a policy environment where there is a mandatory contribution towards affordable housing from new greenfield developments, and from other developments that intensify use of a

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[3] Housing Development Capacity Assessment 2017 Queenstown Lakes District 27th March 2018 –

[4] Ibid, page 181

[5] Page | 178

[6] Page | 180

site[7]. By intensify, it is assumed to mean residential or mixed use developments that see a net increase in units.

The extent to which brownfield redevelopment will make up future development capacity means that any IZ policy must suit this type of development. Rather than develop a discretionary, case-by-case assessment process for brownfields development, it is recommended that a simplified requirement / contribution scheme apply. Relevant points are:

- Brownfields development will more likely involve smaller scale developments that sit below a threshold level where an affordable housing requirement may be triggered (for example developments of two or three units on a 800sqm section).
- Brownfields development cannot readily provide land, and therefore is better suited to a financial contribution approach, rather than a physical requirement to provide affordable lots or units.
- In the QLD context, which includes fast population growth and strong and sustained land and house price increases, it is not considered necessary to provide some form of bonus for brownfields developments that provide affordable dwellings.

A brownfields requirement could be tied to future plan changes (up zoning) rather than apply to development enabled by current zonings. This would, however, see a large pool of development capacity without any contribution flowing from it.

Having said that, transitional effects will be present for brownfields development sites. These transitional effects could be addressed through a stepped phase in period and/or delayed implementation. For example, any IZ policy could start with a small IZ contribution, rising to a larger contribution in five years time. Alternatively, the provisions could become operative after a set date, such as three years after the variation or plan change is settled. Either approach would allow markets to adjust and for sites which are currently in pre-development consenting stages to proceed.

In summary, a mandatory 'pre-set' requirement across greenfields and brownfields is appropriate. However, the contribution rate may vary between greenfields and brownfields to reflect differing feasibility, with scope for site specific approaches to be tested.

Settlement Zones

The QLD has a number of smaller villages outside the main urban areas. The PDP Settlement Zone applies to the settlements of Glenorchy, Kinloch, Kingston, Luggate and Makarora. The lack of Council servicing or limited servicing in these areas restricts the likely take up of housing capacities in these environments.

These settlements are mostly remote from the main centres and historically have offered a more affordable housing product. The PDP enables low-intensity residential development that retains character and amenity through the use of minimum lot sizes. Overtime, the settlements are likely to grow and develop as they respond to a range of demands. In this context it would be appropriate that they contribute to meeting affordable housing needs, but at a rate that recognises their circumstances.

[7] 2017 Mayoral Taskforce, page 21.

Rural Residential, Rural Lifestyle and Resort development.

A feature of QLD is the significant pool of development potential in rural-residential, rural lifestyle and Special (resort) zoned areas.

The Council's 2017 Housing Capacity Assessment found that residential capacity in the rural (non-urban) areas of the district is in the order of 3,600 dwellings, spread across a variety of zones.

Some of this capacity is in the form of one or two larger lifestyle or rural-residential lots that could be subdivided from an existing lot. In other cases, larger properties could be subdivided into more than 10 lots.

Resort zones like Millbrook have seen considerable residential development. Some special zones may incorporate worker accommodation.

In general, the rural-residential, resort and rural lifestyle zones are not appropriate locations for affordable housing. They are located away from key services and community facilities and likely to result in higher travel costs for residents. Land and buildings are likely to be expensive to maintain and subject to high resident society fees or similar.

Nevertheless, development in these zones generates demand for affordable housing. This is in terms of employment associated with the resort zones, as well as home and garden maintenance services and the like. Equally, the population resident generates demands for community services like education, health and local government services. This demand suggests that 'non-urban' residential development should contribute in some way to help mitigate impacts on low to moderate income households.

The Rural Residential zone generally provides for development at a density of up to one residence every $4000m^2$. The Rural Lifestyle zone provides for rural living opportunities with an overall density of one residential unit per two hectares across a subdivision. Density of development in Special zones vary.

It is considered appropriate to apply any contribution to rural-residential and residential development in resort zones due to the urban type nature of these developments, as well as the indirect demands for affordable housing that they create. Rural-lifestyle and rural lots and housing should not be included, as these types of developments already play a significant role in management of resources (such as landscape protection).

Requirement trigger

This issue relates to what scale of housing development would trigger a requirement or contribution, for example a development of 10 or 20 more dwelling units or lots, and whether certain forms of residential development should be exempted from any requirement.

Generally, Inclusionary Zoning programmes have a threshold for contribution of 10 units[8]. The rationale behind treating small developments differently is that an affordable housing requirement might have a greater financial effect on them, compared to larger developments. On the other hand, because smaller developments could represent a significant portion of the total new housing production, exempting them could considerably reduce the provision of affordable housing.

Potential for "boundary effects", such as developments being staged so each stage is below the trigger point (for example 9 units rather than 10 units) are likely to arise. Any cut-off will create a boundary effect. In comparison, Linkage Zoning requirements generally do not have a 'cut off'. Rather there is a set fee that applies to all new jobs to be created, based on the floor area of the development.

In greenfields situations, housing subdivisions and developments generally involve larger scale projects where 'boundary effects' do not arise.

For brownfields, new development or redevelopment involving a net increase of 10 or more units usually involves comprehensive development of larger sites. A 10 unit 'cut off' may incentivise some scaling down or staging of such developments (such as 8 or 9 units on sites that could accommodate 11 or 12 units, or the 12 units being broken down into two stages of 6 units).

The alternative to a requirement is a financial contribution from all development, whatever its scale. Where specified in a plan, financial contributions can be imposed to avoid, remedy or mitigate adverse effects of activities, or to achieve specified outcomes associated with sustainable management of resources. Contributions can be in the form of cash, land or a combination of cash and land. An advantage of a financial contribution approach would be that it could be levied on all residential development over a certain minimum value or size, thereby avoiding most boundary effects. The issues associated with financial contributions are discussed further in the next section.

An affordable housing requirement could be built around a split fee-in-lieu / affordable unit contribution regime; for example for developments of 10 or more housing units, then 10% of units (or 1 unit out of a 10 unit development) must be an affordable unit. For developments involving less than 10 dwelling units, the contribution would be in the form of a financial contribution at a pro rata rate (for example a 6 unit development would pay a fee in lieu at a rate of 60% of the cost of providing an affordable unit).

Exclusions

IZ is aimed at residential development on the basis that mixed income communities provide a number of positive growth management benefits, while zoning decisions that provide for housing confer a degree of benefit to such developments, with that benefit reflected in higher land and property prices. On this basis, all forms of residential development that benefit from residential zoning should be included in any IZ scheme. However, there are a range of residential and related activities that may justify exclusion from any requirement on the basis of the activities providing alternative affordable housing choices.

The QLDC PDP defines a residential activity to mean the use of land and buildings by people for the purpose of permanent residential accommodation, including all associated accessory buildings,

[8] A Guide to Developing an Inclusionary Housing Program. Developed for: Acorn Institute Canada, Sept 2010.

recreational activities and the keeping of domestic livestock. For the purposes of this definition, residential activity includes Community Housing, emergency refuge accommodation and the non-commercial use of holiday homes. Visitor accommodation, residential visitor accommodation and homestays are excluded.

In turn a residential unit means a residential activity which consists of a single, self-contained household unit whether of one or more people.

Clearly stand-alone dwellings, terrace houses and apartments fall within these definitions. There are a range of residential activities that do not necessarily involve residential units as defined, but which may have affordability benefits. Any affordable housing scheme should be explicit as to whether these other types of residential development should be subject to the requirement or contribution.

Possible exclusions from any IZ requirement include:

- Housing developments that share common facilities, (e.g. lodges, boarding houses)
- Retirement villages
- Developments undertaken by Registered Community Housing Providers (such as the Queenstown Lakes Community Housing Trust or Kāinga Ora)
- Minor household unit / granny flat/tiny houses.

It is also necessary to consider whether Residential Visitor Accommodation should be included, even though for District Plan purposes, it is not defined as a Residential activity.

Reasons for and against specific exclusions include:

- Boarding houses, lodges and student accommodation units that share common cooking and dining facilities generally seek to offer less costly accommodation, often on a temporary basis. Rooms in such developments may not be considered to be separate residential units. For example, boarding houses are defined by section 66B of the Residential Tenancies Act 1986 to be residential premises containing 1 or more boarding rooms along with facilities for communal use by the tenants of the boarding house. The proposed district plan QLDC does not facilitate these types of activities in residential zones, but they are possible in commercial areas.

- Retirement villages (under the Retirement Villages Act) offer a specific housing product that does not involve the creation of separately owned lots and dwelling units. However, independent living units can be provided in a retirement village development, along with supported care type facilities. The independent living units are similar to residential units and can benefit from a residential zoning. In the case of QLD, two retirement village developments have offered affordable housing contributions. Supported residential care facilities are facilities like ‘rest homes’ that provide accommodation and full-time care for the aged. A rest home is defined in section 58(4) of the Health and Disability Services (Safety) Act 2001. Supported residential care units should not be included, but there is justification for independent living units to be included.

- Housing developments that may be undertaken by Kāinga Ora and developments by a Registered Community Housing Provider will generally be aimed as delivering a range of housing products, including social and affordable housing. These should be excluded, provided that there are mechanisms in place to ensure retention of affordable units.

- Minor household units are a form of residential activity. They are generally limited in size and cannot be subdivided from the main unit. In the QLD context they are defined as residential flats, are a permitted activity and can be up to 70m² in area in urban zones and up to 150m² in the rural zones. They can provide for a form of affordable rental unit. 'Tiny houses' (such as houses less than 40 square metres in area and studio type apartment units) are a growing trend. They may be on a separate title and therefore can be classed as a separate residential unit. In a similar vein is studio or 1 bedroom apartments. Their small size is directly aimed at providing affordable living options to a sector of society and as such. Small dwelling units (less than 40 sqm) should be excluded.

In the QLD context, visitor accommodation is defined in two ways. Visitor Accommodation in the form of a hotel or backpackers is its own form of activity, and not defined as a residential activity. Residential Visitor Accommodation is a separate activity to that of Visitor Accommodation. Residential Visitor Accommodation means the use of a residential unit including a residential flat by paying guests where the length of stay by any guest is less than 90 nights. This covers activities such as Air BnB. If Residential Visitor Accommodation is excluded from any affordable housing requirement, then it is possible that residential units will be advanced on the basis of being Residential Visitor Accommodation and not be subject to any requirement or contribution.

In summary, it is recommended that:

- Independent living units within retirement village developments be included in any Inclusionary zoning requirement, along with residential visitor accommodation units.

Exclusions should cover the following sub types of residential activities:

- Boarding houses, lodges and student accommodation and similar co living arrangements that do not involve separate residential units for occupiers
- Managed care units in retirement villages and rest homes
- Small household units (self contained houses apartments less than 40sqm in net floor area)
- Affordable housing delivered by Kāinga Ora and Registered Community Housing Providers that have appropriate retention mechanisms in place.

Requirement / Contribution level

Under some IZ programmes, all eligible residential developments above a trigger level are required to provide the same fixed percentage of the total units as affordable units. In other cases, the requirement is determined on a case-by-case basis.

US evidence is that 'fixed 'contributions ranging from 10% up to 20% of dwellings being affordable have been proven to be acceptable in many jurisdictions[9]. In the UK, in major metropolitan centres, affordable housing requirements can extend to 30 to 50% of dwelling units, but each case is negotiated.

[9] Inclusionary Housing Program Design Worksheet. Sourced from https://inclusionaryhousing.org/

Setting the contribution rate can involve modelling of the financial feasibility of different types of developments, consideration of demand for affordable dwelling as well as issues of practicality.

In principle, any affordable housing requirement should be based on a prescribed and fixed “below market” price or rent. A “below-market” price or rental is one that is likely to be substantially below the lowest market price or rent for the equivalent new unit.

For example, Quotable Value NZ data suggests that sections in Queenstown are in the order of $400,000 to $450,000; while houses in Lakes Hayes Estate and Shotover Country sell for up to $1,000,000. The land component is approaching 50% of the total cost (land plus house).

Typically, inclusionary zoning aims to provide housing that is affordable to households on 80% to 120% of area median household incomes. These units have to be sold or rented to qualifying households; that is households that meet income and asset criteria.

In the case of QLD, with an estimated median household income of around $110,000 an affordable home may need to be sold at between $500,000 to $550,000 to be affordable to a household on 80% of the median income. At this price, assuming 20% deposit, then approximately 35% of the households gross income is required to cover mortgage repayments.

It is important to understand that in most IZ schemes, the affordable unit is still sold by a developer, albeit at a below market rate. The house may be sold to a Community Housing Provider or brought by a household that meets income criteria.

Affordable housing schemes that operate in the form of a financial contribution (or offer this as an alternative) generally base the financial contribution on a monetary value that is similar to the requirement. For example, if the requirement is that 2 lots to be sold at $250,000 each rather than a market rate of $350,000, then the financial contribution is equal to the difference (i.e. $200,000; being two times the $100,000 difference between $350,000 and $250,000).

Responding to demand

Starting with demand, setting the requirement rate is not necessarily tied to demand, in that demand for affordable units may well exceed what is a reasonable contribution from development. Moreover, IZ programmes typically seek to address specific market sectors. For example, they may target key workers (workers like police, teachers, medical) who are important to the sustainable functioning of a community, or schemes may target moderate income households on the basis of other government programmes and support for low income households (for example targeting households on 80 to 100% of median household income).

The 2017 QLDC housing capacity assessment identified that estimated net shortfalls in the five lowest dwelling value bands (houses below $880,000) over the period 2016 to 2046 represent 2,460 dwellings under a medium growth scenario. For dwellings below $600,000, estimated demand between 2016 and 2046 is in the order of 5,400 dwellings, yet supply based on current trends may not deliver more than 3,800 dwellings, leaving a shortfall of 1,600 dwellings. Should high growth resume, then by 2046 the shortfall for under $600,000 dwellings could be in the order of 2,400 dwellings[10].

[10] Page 230, 2017 Housing Capacity

The 2019 Housing Needs Assessment considered the vulnerability of households to economic conditions, such as increased costs of living. In 2018, 12% of households were estimated to be in the two most vulnerable bands (out of 9 bands). If this proportion continues to 2048, then a further 1,900 households will be added to this category[11].

The 2017 Mayoral Taskforce supported further work being done that explores how a rate of contribution could be set that would see the goals of the Taskforce achieved. These being 1,000 affordable homes by 2028, as well as the 2048 goal of all of the district's workforce being able to own or occupy a home the district at a cost that allows them to live within their means. For the short term, delivering 1,000 affordable homes in next 10 years is roughly 20% of the total of 5,000 homes required in that period.

Based on the above, affordable housing demand is in the order of at least 2,000 dwellings over the next 30 years.

Development feasibility

Consideration of the impact of any requirement or contribution on feasibility of development can involve consideration of the following matters:

- General assessment
- Screening tool
- Case studies.

The key issue to determine is whether a requirement or contribution is likely to deter needed housing development. In particular is whether costs of meeting a requirement or contribution are likely to be absorbed by development, passed forward to other home owners, or backwards to landowners of undeveloped land. Passed forward, the IZ requirement may raise house prices, deterring some buyers; passed backyards, the requirement may deter some land supply options from being actioned. If absorbed by the developer, this may see them not take on more marginal projects.

General assessment

At a general level, Queenstown Lakes Districts' track record with affordable housing is relevant in this regard:

- Historical plan changes have seen a voluntary contribution rate of 5% of lots transferred to the Council become established.
- Special Housing Areas initially required a 5% affordable housing contribution to be provided This was amended to 10% in 2018. QLDC data shows that the contribution is based on lots transferred to the Council (although some SHAs allowed for contribution of cash, lots or lots and house packages).
- In other cases, developments have incorporated 'worker housing'.

[11] QLDC Housing Needs Assessment, 2017, page 6

These examples have generally involved land that is being converted from rural to urban use. In general, there is considerable value uplift in the process of zone changes. This value uplift has helped to absorb the costs of the affordable housing requirements.

The addition of some form of contribution or requirement onto land already zoned for housing raises a number of issues. A requirement will be perceived to add costs and risks. Increased risks arise from uncertainty over the sale of the affordable lots or houses and the implications for the behaviour of buyers of market rate housing in the development. Costs may not be able to passed backwards.

Experience to date suggests that the risks to a development are not seen to be great, within the QLD context of strong growth pressures. Affordable housing is generally seen to be directed to the needs of working households that need assistance, while the Queenstown Lakes Housing Trust is seen to be an effective method of compliance with the requirements (that is, delivery of the affordable housing). The provision of affordable lots within a development is not seen to create a stigma on the rest of a development.

In terms of development feasibility, the generally rising market of the past 10 or so years has meant that developers have often be able to absorb the costs of the requirement, provided it is in the range of 5 to 10% of lots or units.

Screening test: MBIE development feasibility tool

The MBIE development feasibility tool (developed for the National Policy Statement on Urban Development Capacity) provides one tool to assess the financial feasibility of different development forms[12]. See Appendix One for a copy of the excel worksheets used in the analysis below.

This is an 'off-the-shelf' tool that is based on standard industry assessments of development feasibility. The MBIE model is described as being an open source spreadsheet model which can be used to estimate the feasibility of land or building development in local areas.

Users can adjust the inputs and add or delete columns or rows to meet their needs. Local data can be inputted into the model to reflect local revenue and cost factors. This tool has been used to run some initial simulations of the impact of affordable housing contributions.

The analysis is necessarily at a high level and very dependent upon the assumptions around land values. The model is very sensitive to changed assumptions relating to other factors like civil costs and contingencies.

It is also important to understand that the model is a static model. The value of the development block assumed in the scenarios is 'fixed' and does not vary depending upon possible returns or

[12] Sourced from: https://www.hud.govt.nz/urban-development/national-policy-statement-on-urban-development-capacity-nps-udc/guidance-for-local-authorities-on-the-nps-udc/

possible costs. As discussed in the next section, these limitations mean that the tool is not an accurate valuation of a development proposal. It is at best a screening type tool.

For a greenfields scenario, the MBIE land development model has been used. The following basic assumptions have been used (as of mid 2020):

(i) 10 ha lot assumed to be zoned residential
(ii) Block land value of $10,000,000
(iii) Approximate per section costs (civil, design, fees and charges) of between $135,000 and $163,000 depending upon density
(iv) Development contribution of $30,000 per lot (included in (iii))
(v) 8% cost of capital
(vi) Sale values of $300,000 for a 350m^2 section (inclusive GST)
(vii) Development time – 36 months.

The value for the 10ha lot is a nominal value of $1 million per hectare.

The MBIE spreadsheet model has three different "contingency' fields. These are for civil works, fees and charges and overall project costs. For the purposes of this exercise, these different contingency allocations have been collapsed into one project contingency of 10%.

Based on the MBIE model, with no affordable housing requirement and assuming a 'standard' profit/loss allowance of 20% for developer's margin, then the model provides the following assessment of feasibility, across five different density scenarios.

Table 2 : MBIE development feasibility screening – greenfields subdivision

Net Density (lots per ha)	20 (average lot size = 500m^2)	23 (average lot size 444m^2)	25 (average lot size 400m^2)	28 (average lot size 364m^2)	30 (average lot size 333m^2)
Feasibility – no requirement	Yes	Yes	Yes	Yes	Yes

If an affordable housing requirement is then added, whereby 5% of the lots must be sold at an affordable price of $250,000 [13] then the pattern of feasibility remains the same, although revenue does fall compared to the 'without-a-requirement' case. However, profit/risk remains above 20%.

[13] And sold with a retention mechanism

Table 3 MBIE development feasibility screening – greenfields subdivision

Density (lots per ha)	20	23	25	28	30
Feasibility – no contribution	Yes	Yes	Yes	Yes	Yes
Feasibility – 5% lots are affordable	Yes	Yes	Yes	Yes	Yes

This exercise can be repeated for contribution levels of 10, 15 and 20% of lots sold at an affordable price. See Table 4:

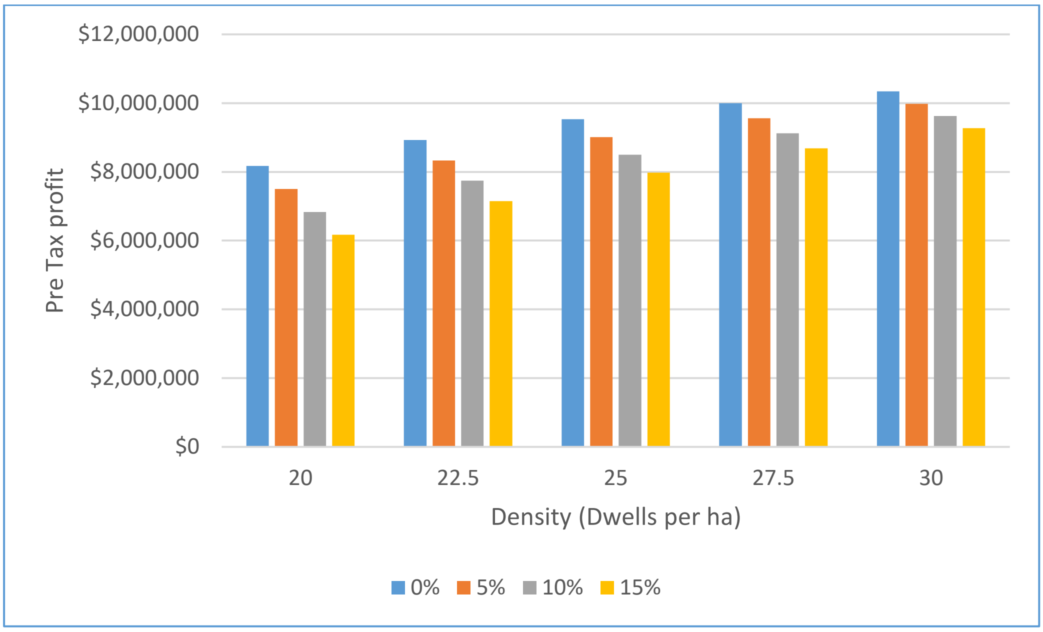
Table 4: Screening tool: different levels of requirement and development density

Density (lots per ha)	20	23	25	28	30
Feasibility – no contribution	Yes	Yes	Yes	Yes	Yes
5% lots are affordable	Yes	Yes	Yes	Yes	Yes
10% lots are affordable	No	Yes	Yes	Yes	Yes
15% lots are affordable	No	No	Yes	Yes	Yes
20% lots are affordable	No	No	No	Yes	Yes

As the affordable housing requirement increases, then a number of development scenarios become infeasible.

The following chart (Figure 4) displays the calculated pre tax profit under these different density and requirement scenarios. A pre tax profit of approximately $7.5 million is needed to justify the costs of land purchase, expenditure on works, fees and charges etc and associated risks, for all the scenarios.

Figure 1: Impact on pre-tax profit of different requirement levels



The above simple calculations suggest that a requirement of 10% to 15% of lots sold at an affordable price will be unlikely to make medium density subdivision unviable, but may make lower density subdivisions less viable.

Turning to the situation where a financial contribution is made to the Council involving land or money, a 5% contribution (transfer of 5% of completed lots at no cost to the Council) would see a contribution roughly equal to 15% of lots being sold at an affordable price.

Table 5 shows the expected profit margin with no requirement, with a requirement for 15% of lots to be sold at an affordable price and with a requirement for 5% of lots to be transferred at no cost to the Council, across the density ranges.

Table 5: Impact on Pre Tax profit: 15% affordable versus 5% transferred

Density of development (dwellings per ha)	20	23	25	28	30
Pre tax profit margin: No contribution	23.6%	25.0%	25.9%	26.5%	26.7%
Pre-tax profit margin, 15% sold at an affordable price	17.8%	20.0%	21.7%	23.0%	23.9%
Pre tax profit margin: 5% of lots transferred	17.4%	18.7%	19.6%	20.1%	20.3%

For the 25 dwellings per ha scenario, the MBIE model suggests that pre tax profit would fall by around $2.3m under the 5% contribution scenario, compared to the without contribution scenario. This is equal to a 'per lot contribution' of $14,000. See Table 6.

Table 6: Model outputs: With 5% transfer of lots compared to no contribution

Density of Development	20	23	25	28	30
Reduction in profit	$2,141,954	$2,233,704	$2,315,536	$2,388,726	$2,454,270
Number of lots	136	151	165	179	193
Per lot 'contribution'	$ 15,779	$14,817	$ 14,007	$13,312	$12,708

However, as noted the screening tool is very sensitive to changed assumptions. Sensitivity testing indicates the extent to which assumptions can vary before alternative outputs are generated. For example, based on the model, a block land value of $12m results in no forms of development being viable, unless land and house prices rise. In the above scenario of a 5% contribution rate, the value of the development block would need to reduce to make the development viable.

Brownfields

Turning to brownfields development, a number of development types are possible, such as infill development (add a unit) to redevelopment involving terrace houses or apartments.

In all cases sales values vary, along with construction costs. Based on Building Permit data for Q3, 2019 as well as QV data on median sales values for QLDC, the following assumptions have been made as set out in Table 7.

Table 7: Brownfields assumptions

Type of development	Average sale value (1)	Average cost of construction per square metre (2)	Average floor area - new build (3)	Average sale value per square metre (4)
Houses	$971,000	$2,972	223	$4,362
Town Houses	$751,000	$2,495	111	$6,760
Apartments	$672,000	$3,288	71	$9,502

Notes

(1) Data from Quotable Value NZ for QLDC as a whole, Feb 2020
(2) Data from Building Permits issued for last 12 months
(3) Data from Building Permits
(4) Sale value (1) divided by floor area (2).
(5) Development contributions of $15,000 per dwelling have been assumed, based on QLDC development contributions calculator.

Table 8 presents the results of the development scenarios, with no affordable housing requirement or contribution in place.

Table 8: Base scenario -no affordable housing requirement

Requirement / development type	Small terrace	Larger terrace	Apartment 2-3 storeys	Apartment 4 storeys	Apartment 6 storeys
Site size (m^2)	800	1,500	1,500	1,500	1,500
Number of units	5	12	17	30	51
Profit margin (% of costs)	11.2%	16.8%	21.1%	21.5%	15.5%

The MBIE Screening tool uses a 20% profit/risk margin for both greenfields and brownfields developments as a measure of feasibility. This assumption may not hold true for brownfields, as discussed in the next section.

Based on the MBIE model and the assumptions used, any form of terrace development may not viable at a 20% profit and risk margin. Neither is a larger apartment development.

If a contribution is then introduced, either in the form of the sale of a percentage of units at an affordable price, or a financial contribution based on a percentage of the value of the new units, then in all cases, profit margin is below the 20% mark.

The following graph (Figure 5) shows the relative decline in profit/loss margin as the contribution increases.

Figure 2: MBIE screening tool, pre tax profit margin under different development scenarios

The sensitivity testing would suggest that a financial contribution in the order of 2% of the sale value of the units (land and improvements) results in a similar contribution to 5% of lots being sold at an affordable price for the mid range densities. Table 9 shows the estimated contribution on a per unit or per square metre basis. For example, for the small terrace scenario, pre tax profit falls from $377,000 under the no requirement scenario, to $296,000 under the 5% sold at an affordable price scenario. This is a reduction of $81,000m which if then spread across the units in the development, equals a per unit rate of $16,000.

Table 9: Requirement versus contribution: contribution per unit or per square metre of floorspace

Scenario	Measure	Small terrace	Larger terrace	Apartment 2-3 storeys	Apartment 4 storeys	Apartment 6 storeys
5% sold at an affordable price	Per unit	$16,087	$16,087	$14,130	$12,174	$8,043
2% of sales value contribution	Per unit	$16,435	$16,435	$15,652	$14,870	$13,217
5% sold at an affordable price	Per sqm	$115	$115	$141	$135	$101
2% contribution based on sales value	Per sqm	$117	$117	$157	$165	$165

The 4 and 6 storey apartment development options pay more under the 2% of gross value scenario than if 5% of units are sold at an affordable price. This is because of the relatively small difference between affordable prices for units and market prices. It may be necessary to 'cap' the contribution on a per square metre rate. At the other end of the scale – a small terrace housing development – the 2% contribution is similar to the 5% affordable option.

Testing: Case Studies

The above screening exercise presents a 'static', generic picture of the possible impacts of a requirement on development feasibility for greenfields or brownfields sites (where the impact of any requirement is 'absorbed' by the development). As discussed in the Issues and Options report there is debate as to whether costs would be absorbed by the development, passed forward to other lots or houses in a development, or passed back into land values.

Over time, the most likely outcome is for costs to be passed back into land values. The question then arises as to whether the impact on land values would suppress prices to the extent that landowners would not be willing to sell land to a developer.

To further understand impacts of any requirement on development, a residual land value analysis was undertaken on four hypothetical developments – two greenfields and two brownfields using up-to-date data. These test cases were prepared by Telfer Young[14]. See Appendix Two.

The residual land valuation method is described in the Telfer Young report as follows[15]:

> *The methodology requires the assessment of the gross realisation from section sales from which costs of sales (real estate commissions and legal expenses) are deducted followed by a deduction of profit and risk to arrive at an outlay. From the outlay development costs (including development and reserve contributions, advertising costs and interest) are deducted to derive a residual block value for the land, which is the sum a developer could afford to pay for the land for subdivision.*
>
> *The model can also be adopted for the brownfield development model. In this scenario the developer knows how much it will cost to acquire the land to be redeveloped given there is an active market for improved properties. Therefore, the key variable is what profit and risk is obtainable for undertaking the project.*

Greenfields

Queenstown

In Telfer Young's analysis of a hypothetical greenfields development of a nominal 11.6 ha block leads to a residual land value of $14,176,000, with no affordable housing requirement. This output is based on a range of assumptions about the costs to undertake the necessary works, and sale value

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[14] Affordable Housing Project, June 2020. Telfer Young

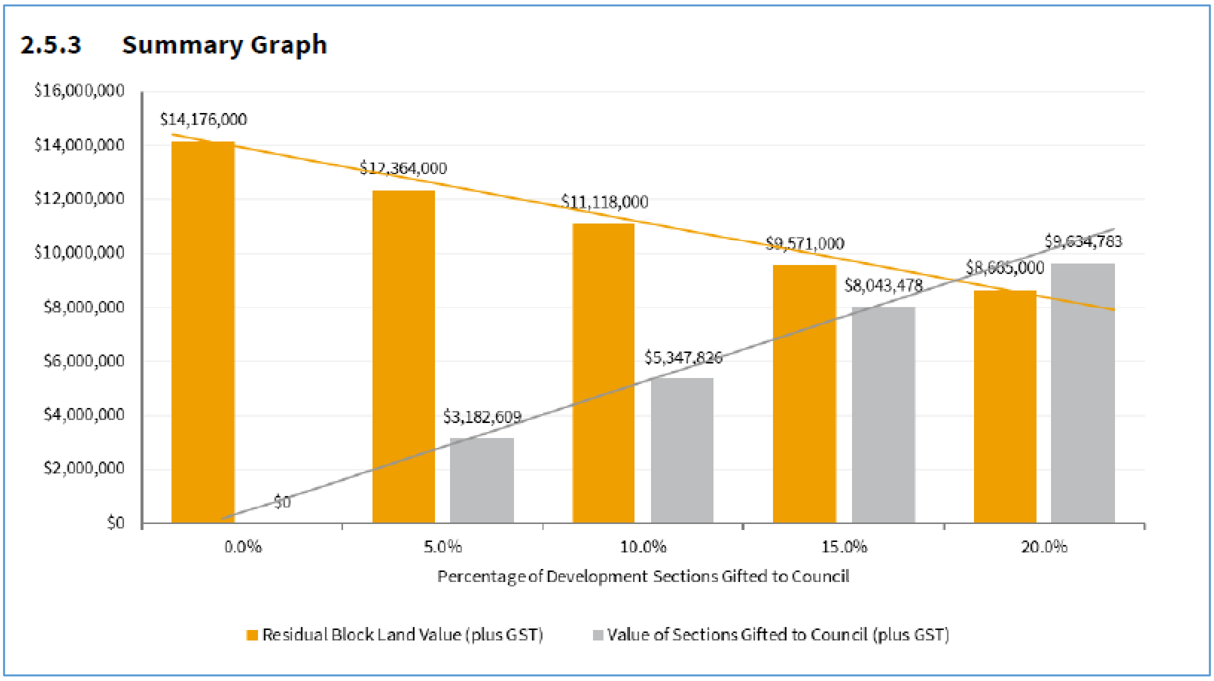
[15] Ibid, page 3

of the lots created. Average costs per lot (civil works, development contributions, sales and marketing etc) are in the order of $131,000. 177 lots are assumed.

These parameters are similar to the MBIE screening tool's '25 dwelling per hectare' scenario, which had 165 lots, and a per lot development cost of $146,000.

Figure 3 below is a copy of Figure 2.5.3 from the Telfer Young report[16]. It shows the impact on the residual land value of increasing levels of affordable housing contribution to the council.

Figure 3: Summary graph: residual land values and affordable lots gifted to Council



Should a requirement of 5% of lots be gifted to the Council as a financial contribution be put in place, then the residual value of the development block drops to $12,364,000. This represents a 12.8% reduction in residual value, or a reduction of $1.8m.

Averaged over the 177 lots, the $3,182,609 contribution equals $17,980 per lot.

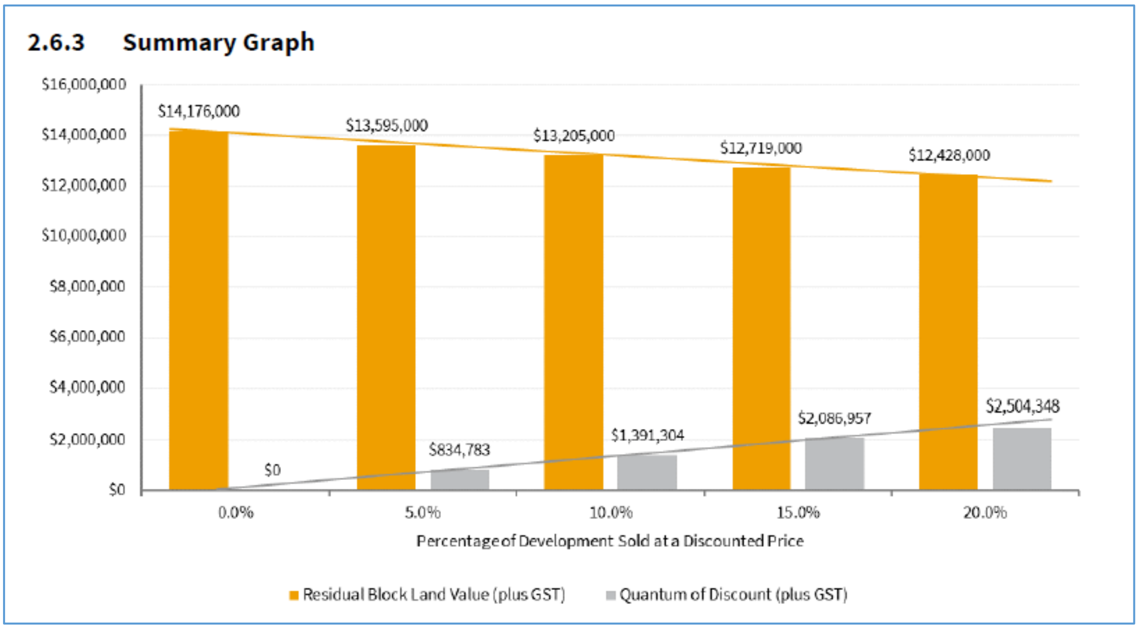
A requirement for a contribution of 10% of lots sees residual land value drop to $11,118,000, or a 21% reduction in value, compared to the 'no requirement' case

Should the requirement be in the form of the sale of lots at a reduced affordable price (ie sale at a discount to market prices) then the following figures are generated by Telfer Young's assessment[17]:

[16] Ibid, page 8

[17] Ibid page 9

Figure 4: Summary graph – residual land value and affordable lots



In this case the impact on residual value is less pronounced (but still present) due to the affordable sites still generating some revenue for the subdivider.

For example, 10% of lots sold at an affordable price reduces residual block land value from $14,176,000 to $13,205,000. A 15% affordable lot requirement is roughly equal in monetary terms to a transfer of 5% of lots to the Council.

Wanaka Greenfields

The same exercise has been completed for a hypothetical subdivision in Hāwea. In this case three scenarios were developed, based on a 10, 50 and 200 lot subdivision. The scenario was based on current lot sizes of around 480sqm with an average value of $300,000. The 200 lot subdivision involved a staged approach to the development, spread over 7 years.

In terms of the option of lots gifted to the Council at no cost to the Council, the following table lists the calculated reduction in residual land value of the 5% or 10% lot options, compared to the no requirement scenario.

Table 10: Reduction of residual land values: gifting of lots

Scenario (number of lots in subdivision)	5% of lots gifted	10% of lots gifted
10	-18.24%	-18.24%
50	-10.68%	-17.79%
200	-10.64%	-18.61%

The results are consistent with the Queenstown model previously discussed, while the results are also similar across the development scales.

If the option is to require lots to be sold at an affordable price, then the following reductions in block values are estimated:

Table 11: Impact on residual land values: sale of affordable lots

Scenario (Number of Lots)	15% lots affordable	20% lots affordable
10	-8.24%	-8.24%
50	-6.58%	-8.23%
200	-6.63%	-8.68%

A requirement that 15% to 20% of lots be sold at an affordable price has a similar impact on residual land values to that of 5% of lots being transferred to the Council.

Market Impacts

The Telfer Young report notes that the affordability options impact on the value of the land (primarily) and prior to the development commencing. The affordability measures typically have less impact on profitability because most developers enter a project with a pre-determined rate that they expect to make from the exercise and would therefore pay less to acquire the block at commencement.

The report does not state whether the estimated extent of reduction in possible land value would be sufficient for landowners to hold off selling the land. There are various ways to consider this potential effect on behaviour:

- Whether a landowner is willing to sell to a developer is partly dependent upon whether there are alternative offers for the land which do not involve the contribution (such as using the land for industrial activities). In general, residential land use will outbid industrial land uses and in the Queenstown context it is unlikely that there will be strong competition from alternative uses.
- The reduced residual land value is likely to be well above raw block value under a rural zoning (even if the land has re zoning potential).
- The reduction in residual value is a one off reduction, and in a rising property market, is likely to be overtaken in a few years by land price increases.
- The QLD has experienced a number of swings in property prices over the years. It is therefore not uncommon for the market to experience down turns, followed by resurgence. These down turns can be in the order of 15 to 20% and may slow development interest in the immediate period of the down turn, however long term, development interest soon returns. A down turn is often followed by a period of slow growth in values as the market re adjusts to the revised conditions.

Brownfields

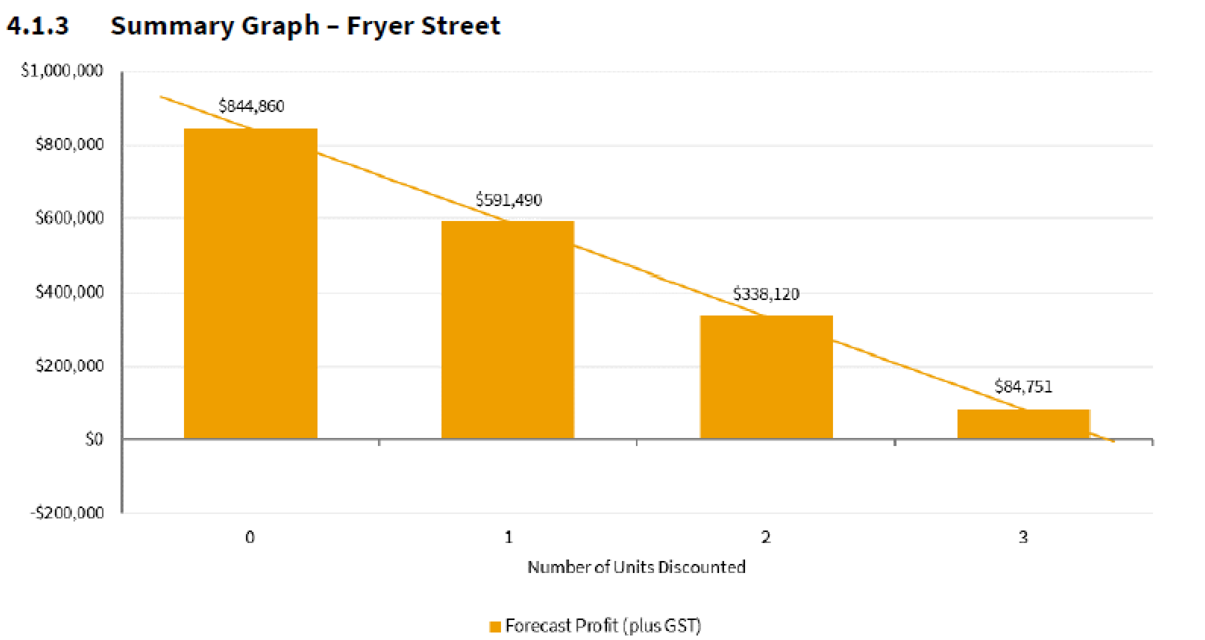
For brownfields development, the Telfer Young analysis notes that as all inputs into the development feasibility are known (such as land acquisition costs, construction costs, sale values) with the exception of profit and risk, residual land valuation is less pertinent to feasibility. More relevant is profit/risk margin. For context, Telfer Young note that a profit and risk rate ranging from 10 to 15% of costs is generally appropriate for development of medium density housing. This is less than for greenfields development, which is higher due to the increased risk associated with subdivision of land.

Telfer Young considered two brownfield sites in Queenstown the details of which are set out in their report.

Both of the hypothetical developments involve a 12 unit redevelopment, one near the centre of Queenstown, with units selling for a market value of $800,000 each, and one along Frankton Road, with units selling for $950,000.

Figure 5 below shows the impact on expected profit if one, two or three units are required to be sold at a more affordable value of $500,000 in the development closer to the CBD.

Figure 5: Copy of Summary graph - impact on profit, affordable units sold at discount



Note this analysis assumes that the units sold at a more affordable value are the same size as the market rate units. It is possible that the affordable units could be in the form of 2 one-bedroom units replacing one larger three bedroom unit, for example.

The sale of 1 unit at an affordable price in a development of 12 units represents a contribution rate of greater than 5%.

If the contribution was in the form of a financial contribution rather than discounted unit, then the following analysis is generated.

Figure 6: Summary table

4.3.2 Summary – Fryer Street

Description	Units Developed	Percentage of Gross Realisation - Affordable Homes Levy	Total Levy (plus GST basis)	Standard Value per Unit (incl GST)	Gross Realisation (incl GST)	Percentage Profit on Outlay	Profit on Outlay (plus GST)
Scenario H	12	0.0%	$0	$800,000	$9,600,000	11.65%	$844,860
Scenario I	12	2.5%	$208,696	$800,000	$9,600,000	8.34%	$623,432
Scenario J	12	5.0%	$417,391	$800,000	$9,600,000	5.23%	$402,004
Scenario K	12	7.5%	$626,087	$800,000	$9,600,000	2.28%	$180,576
Scenario L	12	10.0%	$834,783	$800,000	$9,600,000	-0.50%	-$40,851

In this case a 2.5% contribution on the value of the completed development has a similar impact on profit on outlay to a unit being sold at a discounted value.

The profit on outlay is below the 10 to 15% feasible development band under the ‘with requirement’ scenarios (8.34% for the 2.5% contribution scenario, or 8.16% profit if one unit is sold at a discounted price). The without any requirement scenario has a profit on outlay of 11.65%. This suggests that the contribution would make the redevelopment unviable.

The same exercise was undertaken for a site in Frankton Road. In this case, sales values of units are somewhat higher due to lake views. With no requirement, profit on outlay is just under 12%. If one unit is sold at a discounted prices, profit reduces to 7.7%. If a 2.5% contribution is applied, profit on outlay falls to 8.66%.

In both cases, the 2.5% contribution on sale price results in a substantial contribution (upwards of $200,000), or $17,400 per unit. The analysis suggests that the contribution may make such development commercially infeasible (at least until market conditions adjust to the requirement).

Sensitivity testing suggests that a 2% contribution on sale value results in a financial contribution in the order of $14,000 to$16,000 per unit. Profit /risk on outlay is in the order of 9.5%.

A 1.5% contribution on sales value results in a contribution of around $9,000 to $10,000 per unit.

Market impacts

The impacts on market feasibility of brownfields development are more complex than for greenfields. This is because the ‘asking’ price for brownfield development sites is set by the wider housing market. A financial contribution cannot be readily ‘passed back’ to land prices in this case. The effect of a brownfields contribution may see some projects delayed until market prices for houses rise to a point where redevelopment again becomes feasible.

In general, to be viable terrace and apartment-type housing needs to sell at a discount to stand alone houses in the same area. This discount may be in the order of 20% to 30% less, due to the smaller land area, smaller floor area and closer neighbours. Increasing the cost of brownfields development means that overall house prices may need to rise to re-establish market relativities.

This dynamic suggests that brownfields development must be treated differently to greenfields, with a lower rate of requirement applied than for greenfields.

Rural-Residential, Rural Lifestyle and Resort (Special) zones

No specific assessments have been undertaken of the possible impact of an affordable housing requirement or contribution on the feasibility of rural-residential, rural-lifestyle or residential development in resort zones.

In general land and house prices are very expensive in these areas. Rural-residential and rural lifestyle lots can easily fall in the $1m to $2m range. A similar contribution per lot as for greenfields development would be 1 to 1.5% of the value of the lots.

Conclusion: Feasibility testing

The above discussion of testing of some form of requirement or contribution has demonstrated some key points:

- Brownfields development is likely to be much more sensitive to the effects on feasibility of any contribution or requirement, than greenfields.
- The impact on greenfields development depends upon whether the reduction to residual land values is such that landowners withdraw their land from the development market.
- A requirement in the form of a financial contribution is likely to generate fewer affordable lots or units than a rule requiring a certain proportion of lots or units be sold at a (discounted) affordable level.

A requirement on greenfields development of either 15% lots sold at an affordable price or 5% lots transferred to the Council (for on-transfer to the Housing Trust) results in a similar impact on feasibility. Testing suggests that at or around this level of requirement or contribution is sustainable.

For brownfields development, any requirement or contribution needs to be at a lower level, recognising the sensitivities of this form of development. Options to address the sensitivities of brownfields developments could include:

a) Reduced the contribution rate compared to greenfields, e.g. 2% of the sales value of the development
b) Applying the contribution to improvements only (building work put in place), not to final sale value – which includes land value).
c) Calculating the contribution on the basis of the additional floorspace only, that is the net increase in floor area, and or units.

Quantum of lots or housing arising from requirement or contribution: possible Scenarios

Possible scenarios as to what number of affordable units may eventuate from any affordable housing provisions depends upon a range of assumptions as to what type of development is subject to the requirement, the requirement level, and the impact of this requirement on development patterns (for example, does it see some development not proceed).

In terms of demand for housing over the next 30 years, QLDC data estimates demand for 15,000 dwellings from resident households and up to 2,000 dwellings for non-residents, under a high growth scenario.

Table 12: Dwelling demand – QLDC

Demand	High Growth	
2018-48	Residents	15,120
	Non residents	1,810
	Total HH	16,930

Current (plan enabled) zone capacities provide space for up to 38,350 dwellings in greenfields and brownfields areas, based on Council's assessments. Rural zones add capacity for a further 3,400 dwellings.

Table 13: Zone capacities

Capacity - zonings	Dwellings	Percentage
Greenfields	1,8590	45%
Brownfields	19,760	47%
Rural	3,400	8%
Total	41,750	100%

Source: Housing Capacity Assessment

If it is assumed that over the next 30 years most housing growth will occur through expansion into greenfields areas, then the following generalised pattern may occur.

Table 14: Possible growth pattern

Scenario: Mostly Greenfields			
2018-2048	Type of growth	% of Growth	Dwellings
	Greenfields	65%	11,005
	Brownfields	30%	5,079
	Rural	5%	847
	total	100%	16,930

Requirement

Looking first at a requirement to provide units at an affordable price, it is necessary to first assume how much development may be subject to an affordable housing requirement. For example, it is reasonable to assume that most greenfields growth would involve subdivisions of 10 or more lots. Brownfields will involve a mix of smaller and larger developments. Table 15 sets out one set of assumptions as to what percentage of developments would be 'caught' by a requirement (i.e. be subject to the requirement).

Table 15: "eligible' development

Type of growth	% of growth within threshold	Number of lots/dwellings
Greenfields	80%	8,804
Brownfields	40%	2,032
Rural	20%	169

The 40% of brownfields units being in developments that trigger a requirement is an estimate only. That is, it is assumed that 40% of units are delivered through developments of 10 or more units.

If an IZ requirement is then applied to this 'pool' of development then the potential number of lots or units to be generated over a 30-year time period, all else being equal, can be determined as follows.

Table 16: Number of affordable lots/units

IZ Requirement: lots/units		% requirement	Number of units
Greenfields	Lots	10.0%	880
Brownfields	Units	5.0%	102
Rural	$$ equivalent	2.0%	4
Total			982

Financial Contribution

If rather than lots or units sold with a retention mechanism in accordance with the affordable housing requirement, the intention is that council solely seeks a financial contribution of land or units, targeted at most developments, then the feasibility calculations suggest the following:

Table 17: Lot/unit equivalents – broad-based financial contribution

Financial contribution		Rate	Estimated lots / units
Lots	Greenfields	5.0%	550
	Brownfields	2.0%	102

Floor area of units	Rural-residential	1.0%	13
Total			665

These steps can be repeated for a range of assumptions. For example, if there was more demand for brownfields redevelopment and as a consequence more developments involved 10 or more units, then the following range of outcomes might occur.

Table 18: Alternative scenarios

Mix of development	Mostly greenfields		Mixed greenfields / brownfields	
Contribution	Requirement	Contribution	Requirement	Contribution
Lots	880	550	542	339
Units	102	127	233	233
Total	982	677	775	571

In summary, the number of lots or dwelling units generated by the provisions will not be large in absolute terms, but will make a significant contribution towards the goal of 2,000 affordable homes. In addition, over time, a stock of affordable housing will be built up that can work alongside and complement a range of other actions including direct provision of social housing by the government, as well as a greater range of market rate housing option.

Requirement or Contribution?

Previous sections have discussed two main methods to implement an affordable housing policy:

- A physical requirement on development to incorporate and sell affordable lots and dwellings to eligible buyers; or
- A financial contribution to Council of money or land to be used for the provision of affordable housing by the Housing Trust.

To date in QLD, most stakeholder deed obligations and Special Housing Area requirements have been based on the transfer of lots to the QLCHT at nil consideration. That is, rather than the developer building a home to be sold at below market rates or a subdivider selling a lot at a reduced price, there is the transfer of land at no cost to the council, who then passes it to the QLCHT. Some house and land packages have been provided. With the demise of Special Housing Areas, in the future the transfer of land or units will need to be treated as a financial contribution under section 108 of the RMA. This raises a range of specific issues with financial contributions which are discussed below.

As discussed in the Issues and Options, physical requirements can take a variety of forms. For example, SHAs established in Auckland based a contribution on relative price (e.g. 10% of dwellings to be sold at 75% of median house price), which can be met by smaller houses on smaller lots. Purchasers must meet certain income requirements and must agree to hold the property for a period of time. This approach does not involve retention of the affordable unit for future buyers, rather relying upon the smaller house and section sizes for the dwelling to remain (over time) more affordable, relative to surrounding housing.

A requirement to sell a percentage of lots or units at a discounted (affordable) price will require a range of measures to be put in place to ensure:

- lots are sold at an affordable price
- a retention mechanism is included in the sale
- buyers must meet eligibility criteria
- there is some form of balloting or similar process to fairly allocate lots should demand exceed the number of lots to be sold at the reduced price.

Transfer of land at no cost to the QLCHT (or a house and land package or cash in lieu equivalent if that is negotiated) provides a convenient method for developers to meet obligations. Equally, the Trust does not have to have funding in place to purchase completed dwellings, even if sold at an affordable rate. The transfer of land is an accepted method in the QLD context and it is appropriate to build any method around a similar requirement.

While the current method of a contribution of land tends to suit greenfields development, it may not suit redevelopment involving new multi-unit developments, for example apartments.

Brownfields development will increasingly involve the redevelopment of existing sites, where a stand-alone house is demolished or removed, and new terrace units or apartments are built. This model of development does not lend itself to the transfer of land to the Council (and ultimately the Queenstown Lakes Community Housing Trust). In an apartment development, a separate bare land section is unlikely to be able to be identified and transferred. Similarly, with a terrace housing type development.

In addition to the limited ability to transfer lots, the size and type of units will vary in an apartment development (for example 1 or 2 bedroom units are common in apartment developments. Smaller studio units are also possible). In addition, in most brownfields developments a requirement to sell 10% of units at an affordable price point will result in a fractional amount (e.g. a 15 unit development requiring sale of 1.5 affordable units).

The most straight forward method is likely to base a monetary contribution on a percentage of residential floorspace in the development. For example, the requirement may be a financial contribution equal to 2.0% of the sale value of the development, rather than a percentage of units.

Ideally, the District Plan would specify a monetary value for the contribution, such as a rate per square metre. Otherwise, each development will require specific assessment of likely value.

Specific Issues: Financial contributions

The Councillors have expressed a preference for a financial contribution-based approach, and as outlined above there is a basis to use this technique in QLD. This approach suits the QLD context as the Housing Trust is present and has become an established mechanism to advance the supply of affordable housing. In the QLD context a financial contribution route is likely to be a more efficient and effective methods of implementing affordable housing objectives, than a requirement route.

There are a number of factors relevant to the decision to pursue a financial contribution-based approach.

The RMA provides scope for councils to impose a financial contribution on resource consents. Section 108 (2) (a) of the RMA specifies that a resource consent may include, subject to subsection (10), a condition requiring that a financial contribution be made.

Subsection 10 stipulates that a consent authority must not include a condition in a resource consent requiring a financial contribution unless:

> (a) the condition is imposed in accordance with the purposes specified in the plan or proposed plan (including the purpose of ensuring positive effects on the environment to offset any adverse effect); and
>
> (b) the level of contribution is determined in the manner described in the plan or proposed plan.

The jurisdiction in section 108 to impose conditions is not limited to the amelioration of adverse effects[18]. Rather, the requirement is that the purposes of the contribution are specified in the district plan in accordance with s108(10)(a) and there be a logical connection between the condition and the proposed activity.

The Environment Court[19] has listed a four-point process for considering the validity of financial contributions:

(i) Is the contribution imposed for a purpose specified in the Plan?
(ii) Has the level of contribution been determined in a manner described in the Plan?
(iii) Does the condition imposing the contribution satisfy the Newbury tests?
(iv) Is the condition fair and reasonable on its merits?

This means, to meet the requirements of s 108(10), a plan must in some way, either broadly descriptive or narrowly prescriptive, specify the method (in a non-technical sense) in which a financial contribution can be determined. The provisions cannot be left in a general policy[20].

The reference to the Newbury tests addresses standard tests for consent conditions. These are that:

- The condition must be for a resource management purpose, not for an ulterior one.
- The condition must fairly and reasonably relate to the development authorised by the consent to which the condition is attached.
- The condition must not be so unreasonable that no reasonable planning authority duly appreciating its statutory duties could have approved it.

Section 108AA has modified these tests to a degree. Section 108AA (1) states:

> *A consent authority must not include a condition in a resource consent for an activity unless—*

[18] McLennan v Marlborough DC W058/01.

[19] McNally v Manukau CC (2007) 13 ELRNZ 144 (EnvC).

[20] South Port New Zealand v Southland RC C091/02.

(a) the applicant for the resource consent agrees to the condition; or

(b) the condition is directly connected to 1 or both of the following:

(i) an adverse effect of the activity on the environment:

(ii) an applicable district or regional rule, or a national environmental standard; or

(c) the condition relates to administrative matters that are essential for the efficient implementation of the relevant resource consent.

An affordable housing financial contribution is covered by 108AA (1) (b) (ii). Furthermore, Section 108AA 5 states:

> *Nothing in this section affects* section 108(2)(a) *(which enables a resource consent to include a condition requiring a financial contribution).*

This means that the first Newbury test is modified to the extent that so long as the condition relates to a matter specified in the District Plan, then it is reasonable to say the condition relates to a resource management purpose.

For a large greenfields subdivision, transfer of 5% of serviced lots to Council for use in the provision of affordable housing provides a clear benchmark and purpose. A monetary contribution rather than transfer can be readily determined, as the sales value of lots is easily obtainable.

For brownfields development, a contribution equal to 2% of the value of floorspace created is more difficult to prescribe in a way that is able to be met without substantial case-by-case assessments of sales values. One option is for the plan to adopt an average contribution rate per square metre of floorspace (i.e. a set $ per square metre). However, this benchmark would require constant updating to remain consistent with market movements. This would likely require regular plan changes.

For example, based on the Telfer Young Report and using the Fryer Street scenario, a requirement for one unit to be sold at an affordable price ($500,000 rather than $800,000) results in a reduction in gross realisation of 3%. If the financial contribution was set at 2% of gross realisation, this equals a contribution of $192,000 or $16,000 per unit. At 110 square metres per unit, this equals $150 per square metre. Using a single per square metre rate means that more expensive properties would have a relative benefit, while less expensive developments would have more of a disbenefit.

If the QLD Community Housing Trust is the sole beneficiary of any contribution, then a broad-based affordability scheme relies on the ability of the Trust to scale up its activities to match the amount of contributions obtained in order to ensure delivery of the affordable units. The integrity of the scheme wholly relies on the ability of the Trust to manage the development of the asset portfolio. There may also be concern that if the Trust is the sole arbiter of what contribution mix is appropriate - land versus money (as the Trust would need to agree to the mix), then this may ‘skew’ implementation of the scheme. However, this risk is mitigated to an extent by the Trust’s Relationship Agreement with the Council.

It may be necessary to provide for a number of implementation routes. For example, the rules could refer to a Registered Community Housing Provider approved by the QLDC as being the recipient of any contribution, rather than directly referring to the QLCHT. This would provide scope for other providers to receive contributions and deliver units, in the future. However as with the Housing Trust, there would have to be certainty over long term retention of the units created.

Specific Issues associated with a physical requirement

The alternative to a financial contribution - a development standard (or requirement) – raises a different set of issues to be addressed. These covers matters such as:

- Design standards
- Off-site provision
- Retention mechanisms.

Consideration of these matters raises the issue of whether all developments triggering a contribution will require resource consents to be prepared and processed so that affordable dwelling requirements (number, location and design) can be assessed, resolved and appropriately conditioned.

Design standards

Ideally the affordable lots or units should be similar in design and layout to the market rate units in the development. Depending upon the approach taken, standards or assessment criteria may be needed to address the following specific aspects of the affordable units:

• their minimum size/ floor space;

• their distribution and location.

Controls should prevent the affordable lots or units being segregated in a separate area, and preferably should require them to be inter-mixed and dispersed throughout the market units in a way that leaves the affordable units difficult to distinguish from market units. Where the contribution is in the form of a dwelling, consideration can be given to providing cost savings to the developers by allowing a different standard of interior finishes and amenities in the affordable units, provided that the standard is based upon acceptable building practices and the energy efficiency of the units is not compromised.

On site versus off-site

In principle, the affordable lots or units should be provided within the same site as the market units. However, there is usually pressure for an off-site contribution, either in the form of cash, or units located in less expensive areas. In some cases, Community Housing Providers may not wish to receive a lot or dwelling, due to factors like isolation or associated development costs required by private covenants.

Typically, affordable housing programmes allow for alternative means of meeting obligations, such as the following:

• payment of fees-in-lieu,

• construction of affordable units on another site,

• purchase of existing units and on-sale at a reduced, affordable price.

However, in the absence of policy on the use of these alternatives, few inclusionary units may actually be built, or they may be concentrated in certain areas, or inappropriately scattered. QLDC has a strong preference for obtaining a standardised contribution of a percentage of subdivided sections that are connected to roads and utility services, spread across neighbourhoods.

Retention

Maintaining affordability for future generations and avoiding windfall benefits for first occupiers are important factors.

In the US-based IZ programs, inclusionary ownership units are controlled almost universally through restrictive covenants registered on the title of the property. The covenants bind the initial as well as all subsequent owners to the various affordability restrictions over a prescribed period of control.

Some early schemes had a 'control period' of 30 years. After this time period had expired, then the retention mechanism is lifted. This resulted in the loss of the investment in affordable housing. More recently, retention in perpetuity is common, as otherwise the stock of affordable dwellings can decrease if the additions into the affordability housing 'pool' are fewer than the number of affordable units leaving the pool as their control period expires.

Through the covenants, the initial price reduction is locked in and passed on to the subsequent buyers, allowing for some suitable inflationary adjustment. This means that the owners of the unit do face limited capital gains.

In some places, this primary legal instrument is also supplemented by an "option to purchase‟. This option allows the Council (or perhaps Housing Trust) to buy the affordable units whenever offered for resale. They typically exercise this right, not by buying the unit, but by assigning the option either to a non-profit agency or to an eligible buyer on their waiting list.

Retention mechanisms based on some form of covenant on a title would be a new feature in the NZ housing market and may see some resistance from banks (for example when lending), or future buyers unsure as to the implications of the mechanism. For example, the retention mechanism narrows the pool of potential buyers and limits capital appreciation. Retention mechanisms will require the Council to monitor sales and purchase agreements.

Transfer of land to the QLCHT does involve on-going retention due to the term of the Relationship Agreement that the Trust has with Council.

Another option to avoid retention issues it to seek to control the size of the unit, rather than its cost. For example, a requirement that a percentage of units be one or two bedrooms, rather than all being three bedrooms. However, this approach does not necessarily deliver a unit that is affordable to households on below median incomes, particularly 'family' households. It may not result in a effective match between supply and demand.

Possible approach

Based on the discussion in this working paper and the Issues and Options paper, the following approach is suggested as a possible model for subsequent consideration and assessment as part of Section 32 reporting under the RMA.

Table 19: Possible approach

<table>
<tr><th>Development Type</th><th>District Plan provision</th><th>Notes</th></tr>
<tr><td>Large greenfields residential subdivision on land within a urban growth boundary or other residential zone, e.g. more than 20 lots created</td><td>5 - 10% of lots transferred to the Council at no cost. Option via consent to provide equivalent off-site or in the form of a monetary contribution</td><td>Preference for lots within the development is to support mixed communities across the district</td></tr>
<tr><td>Smaller residential subdivision, 3 to 19 lots, on land within urban growth boundary or other residential zone</td><td>5 - 10% of the value of the lots created to be provided as a monetary contribution to the Council. Value to be based on valuers report on likely sale value.</td><td>Contribution in form of money to be used for affordable housing.

Cut off of 2 lot subdivision recognises potential for smaller development to add to housing supply options</td></tr>
<tr><td>Rural Residential subdivision, Settlement or Special (Resort) zone subdivision of more than 2 residential lots</td><td>1 - 4% of value of lots created to be paid as a contribution</td><td>Contribution level recognises higher value of lots created. Contribution reflects that development does generate indirect demand for affordable housing</td></tr>
<tr><td>Residential development involving more than 2 dwelling units on a lot. Includes Residential Visitor Accommodation and independent living units in retirement villages</td><td>1 - 4% of the sale value of the additional units to be provided as a monetary contribution, or set amount per square metre of floorspace added.

Possible option for larger developments (e.g. more than 20 units) to provide contribution in the form of a unit or units, subject to consent</td><td rowspan="2">Aimed at brownfield type development. Lower rate reflects feasibility issues.

To avoid double dipping, if built on a lot for which a contribution has already been made a subdivision stage, then contribution would be reduced or not apply (i.e. a credit is recognised).</td></tr>
<tr><td>Residential development in Settlement, Resort and Rural-Residential zones</td><td>Set amount per square metre of floorspace added</td></tr>
<tr><td colspan="3">Exempt types of residential development:

• Small units – less than 40sqm
• Boarding houses, worker accommodation
• Managed care facilities in retirement villages
• Developments by Kāinga Ora / Community Housing providers</td></tr>
</table>

Affordable Housing (Indicative provision)

The following is a draft of possible amendments to the Operative and Proposed QLDC District Plans relating to affordable housing. The amendments have not been adopted by the Council. The following is provided as an 'exposure draft' to help elicit feedback.

Operative District Plan

Delete 4.10 Affordable and Community Housing.

Proposed District Plan

Insert the following into Chapter 3 Strategic Direction

3.2 Strategic Objective

Add the following to 3.2.1 The development of a prosperous, resilient and equitable economy in the district (addresses issue 1):

<u>3.2.1.8 Affordable housing choices are provided so that a diverse and economically resilient community representative of all income groups is maintained into the future.</u>

Note: Existing Strategic Objectives 3.2.1.8 onwards to be renumbered.

3.3 Strategic Policies

<u>Affordable housing</u>

<u>3.3.38 Ensure affordable housing choices for low to moderate income households are incorporated into new neighbourhoods and settlements and in redevelopments of existing neighbourhoods.</u>

<u>3.3.39 Ensure that affordable housing provided in accordance with Policy 3.3.38 is retained to meet the long term needs of current and future generations of low to moderate income households.</u>

<u>3.3.40 Require from development and subdivision that has a residential component, the transfer of land or money to the Council as a financial contribution towards meeting Objective 3.2.1.7 and policy 3.3.38 and 3.3.39.</u>

40 <u>Affordable Housing</u>

<u>40.1 Purpose</u>

The purpose of this chapter is to make provision for housing choices for low to moderate income households in new neighbourhoods and in redevelopments of existing neighbourhoods.

The combination of multiple demands on housing resources including geographic constraints on urban growth, the need to protect valued landscape resources for their intrinsic and scenic values, proportionately high rates of residential visitor accommodation and holiday home ownership means that the District's housing market cannot function efficiently, with long term consequences for low to moderate income households needing access to affordable housing. This has adverse consequences for the integrated and sustainable management of natural and physical resources, including pressure for additional urban expansion, displacement of lower income households to outlying settlements, and disablement of social and economic well being.

Affordable housing is where a low or moderate income household spends no more than 35% of their gross income on rent or mortgage (principal and interest) payments. In the Queenstown Lakes District, and for the purposes of these provisions, 100% of the District's Median Household Income for the most recent 12 months is used to define a low to moderate income.

The rules in this chapter apply to residential activity (subdivision and development). Provision is made for affordable housing through imposing as standard and as conditions of consent a requirement for a financial contribution to be made.

This Chapter sets out the purpose of a financial contribution, and the manner in which the level of contribution (i.e. the amount) is determined. A financial contribution taken by the Council is for a different purpose to any development contribution listed in the Council's current contributions policy and may be imposed in addition to a development contribution.

40.2 Objectives and Policies

40.2.1 Objective: Provision of affordable housing for low to moderate income households in a way and at a rate that assists with providing for social and economic well-being and managing natural and physical resources.

Policies

40.2.2 Target affordable housing contributions to residential subdivisions and developments (including Residential Visitor Accommodation and independent living units in retirement villages) where housing is in high demand and generally close to employment, educational and community services, being land within Urban Growth Boundaries, or where a plan change or resource consent seeks to establish urban scale development.

40.2.3 Require developments that indirectly influence housing choices for low to moderate income households, such as residential development in Resort, Special and Settlement zones and Rural Residential subdivisions to contribute to meeting affordable housing needs.

40.2.4 Recognise that the following forms of residential development provide affordable housing and should not be subject to the affordable housing contribution:

a) social or affordable housing delivered by Kāinga Ora, a publicly owned urban regeneration company, the Council or a registered community housing provider,

b) managed care units in a Retirement Village (as defined by the Retirement Villages Act 2003) or Rest Home (under the Health and Services Disability Act 2001)

c) Residential units less than $40m^2$ in floor area), or

d) residential development in which rooms are individually let and cooking and living facilities are shared, such as boarding houses (as defined by the Residential Tenancies Act 1986).

40.2.5 Determine the amount of financial contributions in consideration of the following matters:

a) The longer term demand for affordable housing
b) The impact of a contribution on the commercial feasibility of development at an area-wide scale and over different time periods.
c) The differences in commercial feasibility between greenfields and brownfields urban development.

40.2.6 Financial contributions in the form of a monetary contribution are preferred. Contributions in the form of land should be of serviced lots located within larger developments. Contributions of lots located outside the development site should only occur where this leads to a superior outcome in terms of access to services and community facilities.

40.2.7 Financial contributions received by the Council shall be used for the purposes of providing affordable housing for low to moderate income households.

40.3 Other Provisions and Rules

40.3.1 District Wide

Attention is drawn to the following District Wide chapters.

1 Introduction	2 Definitions	3 Strategic Direction
4 Urban Development	5 Tangata Whenua	6 Landscapes
25 Earthworks	26 Historic Heritage	27 Subdivision
28 Natural Hazards	30 Energy and Utilities	31 Signs
32 Protected Trees	33 Indigenous Vegetation and Biodiversity	34 Wilding Exotic Trees
35 Temporary Activities and Relocated Buildings	36 Noise	37 Designations
39 Wāhi Tūpuna	Planning Maps	

40.4 Interpreting and Applying the Rules

40.4.1 The requirement in Rule 40.8 for affordable housing applies to any residential development that is located:

(a) inside the Urban Growth Boundaries as identified on the Proposed District Plan Maps, or

(b) outside the Urban Growth Boundaries but within:

(i) a Settlements Zones;

(ii) any Residential Zone;

(iii) in a Rural-Residential Zone; or

(Iv) Special Zone or Resort Zones.

40.4.2 Contributions of money from a subdivision activity must be paid to the council before the issue of a certificate under section 224(c) of the RMA. Where land forms part or all of a contribution, all necessary legal agreements to ensure implementation of such a contribution must be completed before the issue of a certificate under section 224(c) of the RMA.

40.4.3 Contributions of money from a land use activity must be paid to the council before the issue of the necessary building consents under the Building Act 2004. Where land forms part or all of a contribution, all necessary legal agreements to ensure implementation of such a contribution must be completed before the issue of the necessary building consents under the Building Act 2004.

40.4.4 Where relevant, the estimated sales value of lots, units or residential floorspace shall be determined by a valuation report prepared by a Registered Valuer (mutually agreed between the Council and applicant) within the 3 months prior to the financial contribution being paid.

40.4.5 The requirement in Rule 40.4.1 for affordable housing does not apply to any development that:

(a) will provide more than 10% of dwellings as social or affordable housing delivered by Kāinga Ora , a publicly owned urban regeneration company, the Council or a registered community housing provider that complies with the requirements of Schedule 40.1, or

(b) is a managed care unit in a Retirement Village or Rest Home (as defined by the Retirement Villages Act 2003 or the Health and Disability Act), or

(c) is a residential development in which multiple households share cooking facilities and living areas, such as boarding houses as defined by section 66B of the Residential Tenancies Act 1986, or

(d) Is located in a Zone that already contains affordable housing provisions in the district plan, or where previous agreements and affordable housing delivery with Council have satisfied objective 3.2.1.8 and policies 3.3.38 to 3.3.40.

40.4.6 For the purposes of this Chapter, residential floorspace is defined as any floorspace in a building that accommodates bedrooms, living areas, home offices, kitchen dining areas, and bathrooms and laundry facilities used for domestic activities and associated circulation spaces like hallways and entrance areas.

40.4.7 Where an activity does not comply with a standard listed in the standards tables, the activity status identified by the 'Non-Compliance Status' column shall apply. Where an activity breaches more than one Standard, the most restrictive status shall apply to the Activity.

40.4.8 For restricted discretionary activities, the Council shall restrict the exercise of its discretion to the matters listed in the rule.

40.4.9 These abbreviations are used in the following tables. Any activity which is not permitted (P) or prohibited (PR) requires resource consent.

P – Permitted	C – Controlled	RD – Restricted Discretionary
D – Discretionary	NC – Non – Complying	PR - Prohibited

40.7 Advice Notes - General

To be developed. Likely to refer to Council practice note.

40.8 Rules – Activities

	Table 45.4 – Activities - Affordable Housing	**Activity Status**
40.8.1	Subdivision or development that is proposed to contain residential lots or units (including residential visitor accommodation units) and provides an affordable housing financial contribution in accordance with standard 40.9.1.	P
40.8.2	Subdivision or development that is proposed to contain, or is capable of containing residential lots or units (including residential visitor accommodation units) and does not provide an affordable housing financial contribution in accordance with standard 40.9.1.	D

40.9 Rules - Standards

	Table 45.5 – Standards - Affordable Housing	**Non-compliance status**
40.9.1	An Affordable Housing Financial Contribution shall be provided to Council as follows: 1. Subdivisions: a. Residential subdivisions within urban growth boundaries or other Residential Zones outside urban growth boundaries, (i) resulting in more than 1 but less than 20 new lots: A monetary contribution shall be paid to the Council equal to 5 - 10% of the sales value of serviced lots.	D

	Table 45.5 – Standards - Affordable Housing	**Non-compliance status**
	(ii) resulting in 20 or more lots: 5 - 10% of serviced lots are transferred for no monetary or other consideration to the council. b. Residential subdivisions in a Settlement, Rural-Residential, Resort or Special zones: (i) A monetary contribution shall be paid to the Council equal to 1 - 4% of the sale value of the lots created. 2. Development: a. Residential floorspace for any new or relocated units on lots that have not been subject to a financial contribution under 1 (a) above: A monetary contribution shall be paid to the Council equal to the lesser of: (i) 2.0% of the estimated sale value of the additional units, or (ii) $150 per sqm of the net increase in gross residential floorspace. b. Residential floorspace for any new or relocated units on lots that have not been subject to a monetary contribution under 1 (b) above: A monetary contribution shall be paid to the Council equal to: (i) $75 per sqm of the net increase in gross residential floorspace c. For residential floorspace on lots that have provided a monetary contribution under 1(a) above, a ‘top up’ monetary contribution shall be paid to the council, equal to the lesser of: 1 - 4% % of the estimated sale value of the additional units, or $150 per sqm of the net increase in gross residential floorspace, and less the per lot contribution paid under 1(a) or (b). For the purposes of this standard, the following types of residential developments: a. residential units less than 40sqm in floor area b. managed care units in retirement villages and rest homes c. residential floorspace that is used to provide social or affordable housing delivered by Kāinga Ora, the Council, a publicly owned redevelopment agency, or a registered community housing provider that complies with Schedule 40.1 d. residential floorspace in boarding houses for the purposes of providing accommodation involving shared living and kitchen	

	Table 45.5 – Standards - Affordable Housing	**Non-compliance status**
	shall not be counted as contributing to the total number of residential units in a development, nor be counted towards fulfilling the requirement of 40.9.1.	
40.9.2	Affordable lots provided in accordance with 40.9.1 (a) (ii) shall be located within the development site.	D
40.9.3	Where development is to be staged, the affordable housing contribution is to be provided as each stage proceeds, on a proportionate lot basis.	D

40.10 Assessment Matters

40.10.1 Discretionary Activities

Council has full discretion but will shall consider the following but not be limited by:

40.10.1.1 The amount of the contribution

a. Whether the site or development has unique or unusual characteristics that would mean full provision of the required number of affordable lots or monetary contribution imposes a significant financial burden on the development that would make the development unviable, as demonstrated by a site specific development feasibility assessment that utilises industry accepted assessment methodologies, and an alternative mix or contribution is appropriate. It is expected that a full assessment of costs will be required based on an "open book" approach i.e. the developer will be expected to make all of the relevant cost information available.

40.10.1.2 Lots versus monetary contribution

a. Whether the contribution is more appropriately provided in the form of money rather than land (lots) due to the location of the lots; their size and on-going high costs of upkeep
b. Whether there are advantages to community mix and affordable housing choices from transferring serviced lots or completed floorspace.

40.10.1.3 Off-site provisions

Affordable lots should be provided within the development site, however off-site locations may be considered for all or part of the requirement where:

c. there are exceptional reasons to avoid on-site provision, such as the site being poorly located for affordable provision, and/or

d. the alternative sites are in close proximity to the development (i.e. within 2kms) and offer a superior outcome in terms of improved access to services and transport and or improved mix of dwelling types. Particular consideration will be given to whether the off-site provision will better address priority needs, particularly family housing, and/or

e. the applicant has entered into a legally binding agreement with an Council approved community housing provider who can demonstrate that on-site provision will not meet their operational requirements and that an off-site location will deliver a superior outcome in terms of the number, mix and/or on-going management of the required retained affordable housing.

40.10.1.4 Staging of dwellings units and/or lots

a. Deferral of provision of affordable lots or units to subsequent stages should generally not occur.

b. Whether delayed delivery of the affordable dwellings or lots can be appropriately secured through a bond.

40.10.1.5 Alternative forms of contribution

a. Alternative forms of contribution to that specified in 40.9.1 (such as sale of lots or units to a Community Housing provider) should not result in a lesser contribution.

b. Transfer of lots or units should involve an appropriate retention mechanism and be subject to eligibility criteria (as specified in Schedule 40.1).

c. Alternative forms of contribution should only be considered where exceptional circumstances apply.

40.11 Schedule 40.1

Retention Mechanism

40.11.1.1 Where a financial contribution is not provided, and an alternative solution proposed, then the requirements in 40.9.1 must be met by the lot or floorspace being sold to an eligible buyer with a legally enforceable retention mechanism which is fair, transparent as to its intention and effect and registrable on the title of the property, including, but not limited to, a covenant supported by a memorandum of encumbrance registered on the certificate of title or consent notice under the RMA, that:

a. limits ownership and re-sale (including a future dwelling in the case of a vacant site subdivision) to:

(i) a registered community housing provider, Housing New Zealand or the council, or

(ii) an occupier who is approved by the council as meeting the eligibility criteria below, and

b. limits rent and resale to an eligible buyer based on a formula that ensures that the lot or dwelling remains affordable into the long term, including a future dwelling in the case of vacant site subdivision; and

c. prevents circumvention of the retention mechanism and provides for monitoring of the terms of the retention mechanism covenant or consent notice and the process should those terms be breached including where occupiers have defaulted on the mortgage and lenders seek to recover their interests in the property, and

d. is legally enforceable by the council in perpetuity through the means of an option to purchase in favour of the council at the price determined in accordance with (e), supported by a caveat.

e. at the time of resale, requires the reseller to:

    apply the same formula used to determine the price of the original purchase;

    allows the reseller to recover the cost of capital improvements made subsequent to purchase, approved by the council at a value determined by a registered valuer.

Eligibility

40.11.1.2 For the purposes of this Chapter an eligible buyer shall:

a. Be a household with a total income of no more than 120% of the District's median household income;

b. Whose members do not own or have interest in other property;

c. Reside permanently within the District during the majority of the year;

d. d. Will live at the address and not let or rent the unit to others; and

e. e. Have at least one member who is a New Zealand resident or citizen.

Affordability

40.11.1.3 Affordability means households who have an income of no more than 100% of the district's median household income and spend no more than 35 per cent of their gross income on rent or mortgage repayments, where:

a. median household income shall be determined by reference to Statistics New Zealand latest data, and as necessary, adjusted annually by the average wage inflation rate.

b. in the case of purchase, normal bank lending criteria shall apply, and shall at a minimum be based on a 10 per cent deposit, a 30 year loan term and the most recent 2 year fixed interest rate published by the Reserve Bank. Body Corporate or Resident Society fees may be included in the calculation of purchase costs;

c. In the case of the sale of a vacant site only, the site is sold at a price such that the resulting dwelling plus the site will meet the criteria set out above.

Waikato Affordable Housing

Issues and Options

Hill Young Cooper Ltd, September 2021

Project name:	Waikato Affordable Housing Issues and Options
Date of this version:	16 September 2021
Status of report:	Final
Report prepared by:	David Mead
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1. Summary

Waipā District Council, Waikato District Council and Hamilton City Council are jointly investigating possible pathways to promote the provision of affordable housing in their districts.

Waipā, Waikato and Hamilton (hereafter the councils) have formed the Future Proof Partnership (FPP) with Waikato Regional Council. The FPP area is experiencing rapid population growth. It has also seen house prices rapidly increase, creating significant affordability issues.

Affordable housing is a term commonly used to describe housing where there is some form of assistance for renters or owners to meet housing costs. That is, affordable housing sits between market rate housing where owners and occupiers can cover housing costs without any assistance and social and emergency housing where occupiers are often completely dependent upon government subsidies and/or direct provision by social agencies.

Inclusionary zoning (IZ) is one pathway to increase the supply of affordable housing. Other pathways include ensuring adequate supply of land zoned for housing ('over zoning') and supporting the work of community housing providers.

IZ imposes district plan requirements on developers to make a proportion of their residential developments "affordable". Typically, a requirement may be that 10% of lots or units of larger developments are sold at a price affordable to households on median or below median incomes. They may be sold to individual buyers or community housing providers.

Queenstown Lakes District Council has utilised a form of inclusionary zoning since 2005, helping to capture some of the value created when rural land is up-zoned for residential development. The policies have provided $24m in funding and land for the Queenstown Lakes Community Housing Trust.

Assessments of housing demand and development capacity (land zoned for housing) in the FPP area indicate that there is no significant zoning constraint on housing capacity, but there is a miss-match between supply and demand, with new housing supply focused on mid to upper priced housing, but demand spread across the income spectrum. The supply of new housing is not sufficient to see an increase in the stock of housing in mid to low price bands (most often, existing houses) as households move up the property ladder.

The lack of affordable housing is likely to create a number of issues for spatial planning, including displacement of demand to outlying settlements increasing pressures on transport networks; potential constraints on employment growth that could help diversify the economies of the area from limited ability to house workers, and likely demand for out of sequence urban growth which may create significant infrastructure commitments for the councils.

IZ raises a range of issues as to whether it is an appropriate tool under the Resource Management Act (RMA) and how any provisions may be implemented.

Typical challenges are that affordable housing is not a matter that is within the scope of the RMA (being a social rather than environmental management issue); any requirement does not arise from the management of adverse effects of development; while excessive affordability requirements may slow housing supply and push up the price of market rate housing to compensate.

These criticisms can be addressed through careful design of an affordable housing requirement. Policy choices cover:

- Purpose – what is the objective of the requirement (e.g. help with growth management, create more stable neighbourhoods)?
- Definition of affordability – what households are targeted (e.g. those on 80 to 120% of area median incomes)?
- Mandatory versus voluntary – set requirement or a negotiated outcome (e.g. all residential development of more than 10 units)?
- Requirement or 'set aside' – percentage of development to be affordable (e.g. 10% of lots or houses)?
- Incentives – are there any bonuses, such as faster processing, extra height or density?
- Retention – what mechanisms are used to protect long term the benefit created (e.g. ownership of units by a Community Housing Provider, and/or some form of control on resale such as deed restrictions)?
- Monitoring – who will administer the scheme, particularly the retention requirements?

Options to progress affordable housing provisions include introducing supportive objectives and policies (but no methods); making the provision of affordable housing a requirement on new greenfields subdivisions; or applying an affordable housing requirement across greenfields and brownfields areas.

Taking into account the local growth management context, it is recommended that a 'greenfields first' option be developed that would apply across the three FPP councils. This option recognises that the FPP area is currently subject to significant urban expansion pressures, and that there is long term benefit from ensuring that part of the housing supply to be developed over the next 10 years should assist directly with affordability issues.

Based on the experience of the greenfields areas, any programme could then be rolled out to selected brownfields areas (i.e. areas likely to see significant redevelopment).

Building support for an affordable housing requirement is critical to success. Analysis is required of potential costs and benefits, as well as the impact of different rates of requirement on development feasibility. Consultation with developers and community housing groups should be undertaken to help shape a locally calibrated affordable housing programme.

Four elements seen to be critical to the success of any policy are: the policy is easy to understand; is mandatory; has broad coverage; and involves low transaction costs.

2. Introduction

2.1 Background

Waipā District Council, Waikato District Council and Hamilton City Council are jointly seeking an issues and options paper addressing possible pathways to promote the provision of affordable housing in their districts.

The Councils are looking to address the following four matters:

Summary of existing situation

- The need for affordable housing, examining housing need across the housing continuum (to be based on available data etc. This does not need to be an exhaustive analysis).

- Review of existing housing supply levers for each TA. What is each TA doing to increase overall market housing supply, for example through current zoning, density increases, changes in typology and more flexibility in greenfield sites?

Options to deliver more affordable housing

- Range of options to deliver more retained affordable housing in the Hamilton, Waikato and Waipā context, including:
    - What more could be done in addition to existing and proposed measures such as density increases.
    - What mechanisms, including Inclusionary Zoning, could the Councils implement to provide retained affordable housing.

Inclusionary zoning model

- What would an Inclusionary model look like, such as:
    - Triggers or thresholds for affordable housing – for example 20% of all developments 10 units or more.
    - Recommendations for the mechanisms for retaining the affordable housing with reference to how the Waikato Community Lands Trust should operate with Community Housing Providers.
    - How this translates into objectives, policies and methods and whether this should be consistent across the RPS and TA plans. Note, this would not need to be a finished product supported by full sec 32 analysis, rather it would be the framework of a possible provision.
    - Mechanisms for Councils to ensure affordable housing requirements are transparent for developers and how their site will contribute to meeting the housing need.

Issues and challenges with Inclusionary zoning and the RMA

- What are the common criticisms of Inclusionary zoning and how might they be addressed in an RMA context?

2.1.1 Report Structure

Preparation of this report has involved reviews of relevant plans and strategies, consideration of possible inclusionary zoning models and discussion with council planning staff from the three councils.

The report is structured as follows.

- Section 3 provides an introduction to affordable housing and inclusionary zoning
- Sections 4 and 5 discuss the housing market in the FPP area
- Sections 6 and 7 review current strategic plans and whether they are likely to significantly address affordability problems
- Section 8 outlines the various dimensions of Inclusionary Zoning policies
- Section 9 discusses issues with the RMA
- Sections 10 and 11 set out a possible pathway for an RMA-based affordable housing policy.

3. Inclusionary Zoning

3.1 What is it?

Inclusionary zoning (IZ) imposes district plan requirements on developers to make a proportion of their residential developments “affordable”. Typically, a requirement may be that 10% of lots or units of larger developments are sold at a price affordable to households on median or below median incomes. They may be sold to individual buyers or community housing providers.

Inclusionary zoning is common in the United States (where the term originated), England, Europe and parts of Australia. It has also been trialled in a small way in New Zealand / Aotearoa in Queenstown and by other councils under the Housing Accords and Special Housing Areas Act.

In a New Zealand context, the term inclusionary zoning could easily be replaced with “provision of affordable housing” or similar.

Affordable housing requirements may apply in greenfields and brownfield areas. The affordable dwellings provided usually have associated controls on eligibility for purchase to ensure targeted needs are met. It is also common to have retention controls over future on-sale to avoid wind fall gains to first purchasers and to protect the investment for the long term benefit of the community.

3.2 Local examples

Queenstown Lakes District Council has utilised a form of inclusionary zoning since 2005, helping to capture some of the value created when land is up-zoned. The policies have provided $24m in funding and land for the District’s community housing trust. IZ type policies have been negotiated as part of a number of private plan change requests, as well as Special Housing Areas. Requirement rates are in the order of 5% to 10% of lots created, and often involve transfer of the lots to the Council at no cost.

A number of other Councils have used Special Housing Areas to implement affordable housing provisions. Special Housing Areas (SHA) were granted streamlined resource consenting processes via accords between Government and local authorities. The intention was that faster consenting processes would help to ease supply constraints, thereby reducing cost pressures on housing. To ensure some affordable housing was delivered through this process, some councils sought that a percentage of lots to be consented through the SHA process be below market rates. For example, Selwyn District’s housing affordability criteria for Special Housing Areas was that 10% of the total potential yield of the qualifying development was to be no more than 75% of the REINZ median value for house sales within Rolleston Township. Through this process, 154 affordable lots have been identified, although it is uncertain as to how many have been given titles and houses built.

The 2013 Proposed Auckland Unitary Plan contained affordable housing provisions. These provisions attracted a range of submissions and the Independent Hearings Panel that considered the proposed plan recommended that the affordable housing provisions not be advanced. The Panel were focused on increasing the supply of development opportunities and were concerned that the affordability requirement would be a tax on development. The Auckland Council accepted this recommendation.

In 2008, the Government enacted the Affordable Housing: Enabling Territorial Authorities Act. The purpose of this Act was to:

> *enable a territorial authority, in consultation with its community, to require persons doing developments to facilitate the provision of affordable housing—*
>
> *(i)for the purpose of meeting a need for it that the authority has identified by doing a housing needs assessment:*
>
> *(ii)in a manner that takes account of the desirability of the community having a variety of housing sizes, tenures, and costs.*

Subject to various criteria and actions, district plans could be amended to include policies and methods covering:

- including a proportion of affordable housing in a development;
- including a proportion of affordable housing in another development;
- including in the proportion of affordable housing a particular kind of housing;
- giving the territorial authority some land in its district; and
- giving the territorial authority an amount of money.

This Act was repealed in 2010.

Queenstown Lakes District Council notified Plan Change 24 (PC24) in November 2007. This plan change sought to introduce a form of inclusionary zoning into the district plan (with a focus on the housing needs of workers). The plan change was subject to Environment Court and High Court hearings. The High Court was satisfied that PC24 came within the scope of the RMA[1]. The Plan Change was subsequently made operative in 2013. The operative plan change introduced affordable housing into the policies of the District Plan so that it can become a relevant matter when plan changes/ variations are proposed, as well as when resource consent applications are considered. This is so the impacts of planning changes on affordability, both positive and negative, are addressed. No specific methods were incorporated.

3.3 What is affordable?

Typically, affordable housing is a term used to describe housing where there is some form of assistance for renters or owners to meet housing costs. That is, affordable housing sits between market rate housing where owners and occupiers can cover housing costs without any assistance and social and emergency housing where occupiers are completely dependent upon government subsidies and/or direct provision by social agencies.

Figure 1 presents one common 'model' of the housing continuum. In the context of this report, "assisted housing" can be taken to mean affordable housing.

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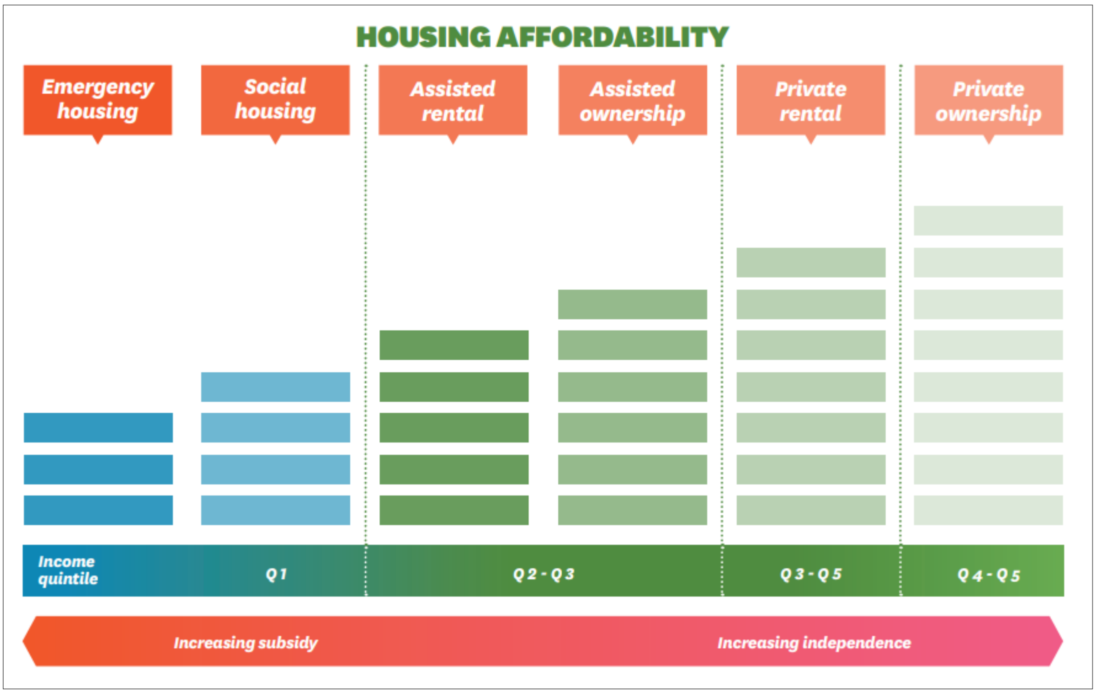
[1] INFINITY INVESTMENT GROUP HOLDINGS LIMITED And Ors V QUEENSTOWN LAKES DISTRICT COUNCIL HC INV CIV-2010-425-000365 [14 February 2011]

Figure 1: Housing continuim



For the purposes of inclusionary zoning, affordability is most often defined in relation to the maximum percentage of gross household income that is devoted to rent or mortgage interest and principal repayments. Benchmarks vary between no more than 30 and 35% of gross household income being spent on housing (shelter). Affordability is usually targeted to those households on low to moderate incomes. Households on high incomes can afford to spend more than 35% of income on housing, as their disposable income is higher than other households.

There is no official New Zealand definition of affordability.

The Ministry of Business, Innovation and Employment (MBIE) make the following points in terms of measuring affordability:

> *There are three main measures of affordability, each of which can be applied to renting and potential first home buying. One is the percentage of households spending more than 30 percent of their income on housing. The second is the percentage of households with below average incomes after housing costs. A third is an affordability index.*

Of the three, the first measure is the easiest to compute and to translate into planning provisions. Usually, to work as a planning provision, affordability needs to be defined in relation to the percentage of income spent on housing fixed to a particular income level, such as the median household income in a sub area or district. MBIE do not explain why 30% of gross income was selected as the 'cut-off' for affordability, rather than 35%. The acceptable percentage of income spent on housing is a judgement call; the percentage can range from 25% to 40% of gross income. The main disadvantage of the measure is that it does not take into account whether the residual income after housing costs is sufficient to meet other needs (food, heating, transport, education etc). Median income levels need to be able to be regularly updated.

A residual income approach typically defines housing as affordable if a household is able to afford to meet their other basic or essential needs after paying for their housing. MBIE's second measure seeks to provide one simple means of determining a residual income approach, relating the after housing costs of households to average incomes, and whether after housing costs, residual income is below that of average income households. Residual income measures are harder to keep up to date due to limited data at a district level on household spending details.

Other measures of affordability can relate affordable housing to a 'discount' to market rate housing, for example affordable housing being 75% to 80% of median house prices. KiwiBuild caps are an example of a discounted product. To keep KiwiBuild homes in more affordable price ranges, price caps are used that set the maximum price all KiwiBuild homes can be sold for. Currently the price cap for the Waikato Region is $500,000.

As has been experienced, discounts or caps can quickly become out of date when house prices rise rapidly. For example, Auckland Council imposed a 'discount' approach on some Special Housing Areas, with a percentage of houses to be sold at a set reduction on median prices. At the time of the consent for the development, a 75% discount to a then median priced house in the region was in the order of $450,000, and therefore affordable to median income households. However, house prices rapidly escalated, meaning a 75% discount to a $1,000,000 house was in the order of $750,000 and beginning to get out of reach of median income households.

3.4 District Plan definitions

Any RMA-based requirement will require appropriate definitions. In particular is the distinction between relative affordability and income affordability:

- relative affordability is affordability measured relative to market medians for house prices (the discount approach)
- income affordability is affordability measured against moderate to low incomes (i.e. no more than 35% of household income).

The National Planning Standards do not define affordable housing, neither does the National Policy Statement on Urban Development (NPS-UD) that references 'affordability'.

Hamilton City's District Plan does contain a relative affordability criterion. This applies in the Te Awa Lakes Medium Density Residential Zone, as follows:

> *At least 10% of the residential units of the total Development Yield of 892 (+/- 10%) shall be sold on the open market at a price that is no more than 90% of the average Hamilton city residential house value, as shown in the most recent June figures published by Quotable Value (www.qv.co.nz) at the date of sale and purchase agreement (to transfer the property to the buyer).*

As an example of a more complex income-related district plan definition, the notified version of the Auckland Unitary Plan contained the following:

> ***Retained Affordable Housing***
>
> *Housing that is:*

•sold or rented at or below the price as defined below

•owned or rented by occupiers who meet the relevant development controls in perpetuity.

Price in the case of retained affordable housing means:
1.Dwellings must be sold or rented at a rate that means households on 80 to 120 per cent of the median household income for Auckland spend no more than 30 per cent of their gross income on rent or mortgage repayments, where:

> *a.median household income shall be determined by reference to Statistics New Zealand*
>
> *b.in the case of purchase, normal bank lending criteria shall apply, and shall at a minimum be based on a 10 per cent deposit, a 30 year loan term and the average published interest rate of the 4 main trading banks. Body Corporate or Resident Society fees may be included in the calculation of purchase costs.*
>
> *c.rent shall be the monthly rent set out in a tenancy agreement under the Residential Tenancies Act.*

2.Purchase prices or rental of houses may be increased by 5 per cent where:

> *a.the dwellings have been certified as providing superior energy efficiency achieving at least 7 star level of the New Zealand Green Building Council Homestar Tool 2013 or an equivalent rating, and*
>
> *b.are located within 200m of a bus, train or ferry service with greater than one hour frequency during off-peak times, i.e. between 9am and 3pm.*

3.Where the development involves vacant site subdivision only, the price of the sites identified for Retained Affordable Housing must not exceed a price such that the resulting dwelling plus the site will be unable to meet the price set out above.

4.Where the development involves apartment units (vertically joined units), then the affordability of units is to be based on the value per m² of floorspace. This value should be determined by dividing the price of the unit determined by the formula in clause 1 above, by 80m².

The Queenstown Lakes District Plan refers to Community Housing, rather than affordable housing. This is defined as:

Means residential activity that maintains long term affordability for existing and future generations through the use of a retention mechanism, and whose cost to rent or own is within the reasonable means of low and moderate income households.

Key Points

Affordable housing is a term commonly used to describe housing where there is some form of assistance for renters or owners on median incomes to meet housing costs.

Inclusionary zoning (IZ) is one pathway to increase the supply of affordable housing. Other possible pathways include ensuring adequate supply of land zoned for housing (‘over zoning’) and supporting the work of community housing providers

IZ imposes district plan requirements on developers to make a proportion of their residential developments “affordable”. Typically, a requirement may be that 10% of lots or units of larger developments are sold at a price affordable to households on median or below median incomes. They may be sold to individual buyers or community housing providers.

Queenstown Lakes District Council has utilised a form of inclusionary zoning since 2005, helping to capture some of the value created when rural land is up-zoned for residential development. Affordable housing requirements have also been a feature of a number of Special Housing Areas in a range of areas in New Zealand.

4. Waikato Sub Regional Housing Market

Hamilton City Council, Waikato District Council and Waipā District Council, along with the Waikato Regional Council, are part of the Hamilton Urban Environment, as defined by the 2020 NPS-UD. This grouping reflects the interconnectedness of housing and labour markets in the area.

The Future Proof Partnership (FPP) sub-region includes the territorial authorities of Hamilton City Council, Waipā District Council, and Waikato District Council.

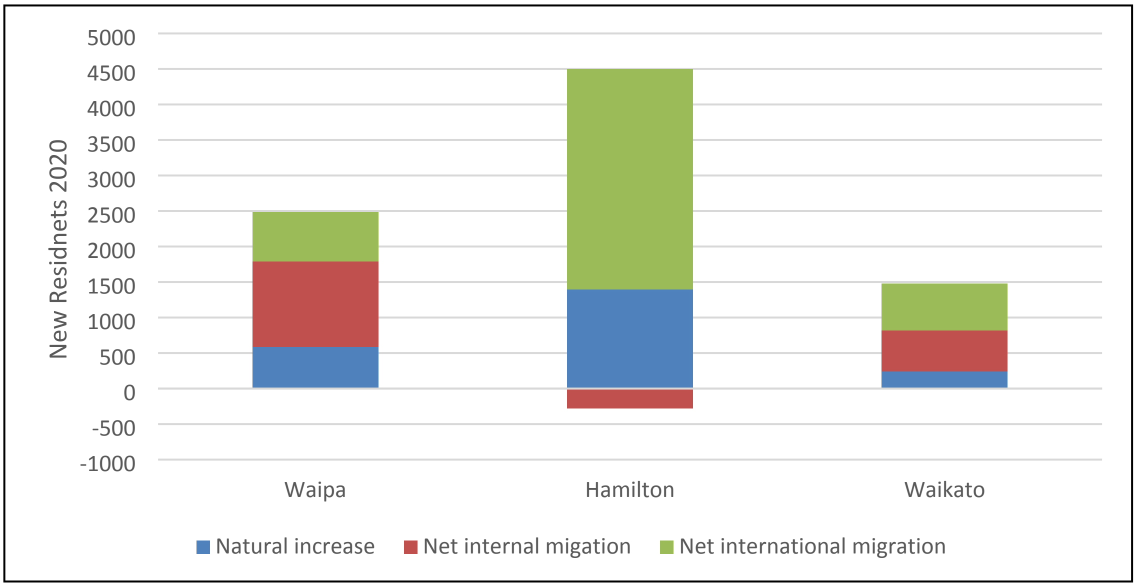
This section provides a summary of the housing market in the FPP area, indicators of housing supply relative to demand and affordability assessments.

4.1 Overview

The FPP sub-region is an area of rapid population growth. It has a population of around 317,200 people based on population estimates by Statistics NZ as of 30 June 2020, and is projected to increase by 27 to 33 percent to between 373,000 and 418,000 people by 2047.

Figure 2 shows the estimated components of recent population growth as recorded by Statistics NZ, for 2020. Hamilton's growth has been fuelled by significant flows of international migrants, and natural increase, partly off-set by a small outflow of residents. The city has a relatively youthful population with a median age of 32. Waipā has seen a significant gain from internal migration, while a median age of 40 suggests demand for new homes for 'family households'. Waikato's growth is mostly resulting from international and local migration. Waikato's median age is similar to Waipā.

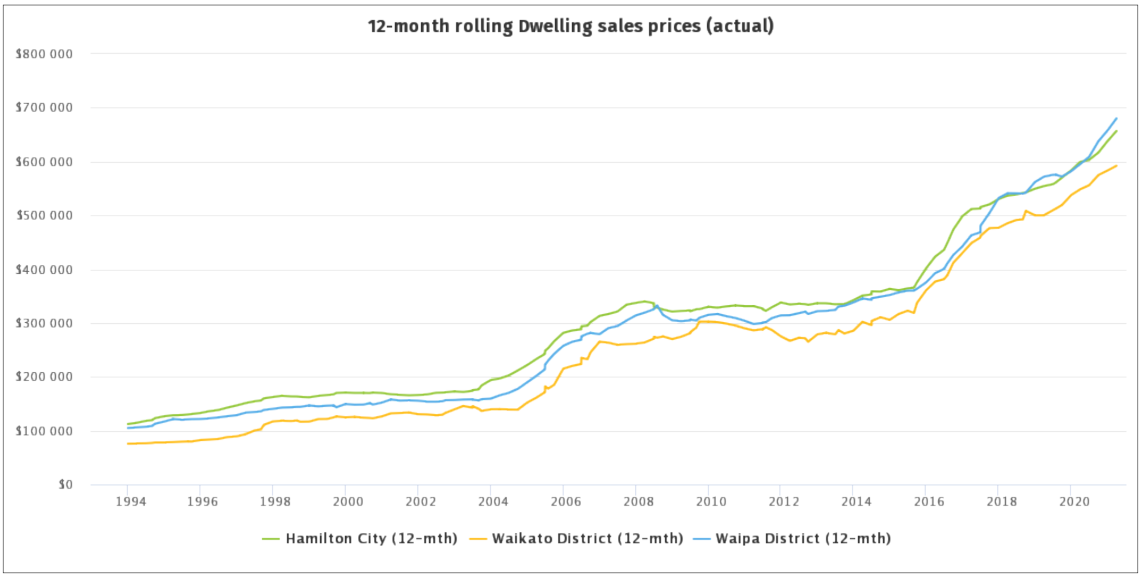
Figure 2: Components of recent population growth



Source: Statistics NZ

Rising housing prices have become a significant issue for the sub-region. The median sales price for a dwelling in the March quarter of 2021 was $656,630 for Hamilton City; $680,000 for Waipā District and $592,000 for Waikato District[2].

Figure 3: 12 month rolling sale price of dwellings



Source: MBIE Urban Development Dashboard

Figure 3 shows the 12 month rolling average of median sales prices for dwellings[3] between 1994 and 2020, as recorded by MBIE. The three areas have followed a similar track, suggesting that the housing markets in the three areas are interrelated and subject to the same pressures.

While median prices are important, lower quartile prices are often identified as forming the affordable housing sector. As reported by QV for July 2021, average house prices and lower quartile house prices are shown in Table 1.

Table 1: Lower quartile house prices

Area	Average house price	Lower quartile house price
Hamilton	$834,000	$578,000
Waikato	$730,000	$460,000
Waipā	$832,000	$569,000

Source: Quotable Value NZ

2 Sourced from MBIE dashboard: https://huddashboards.shinyapps.io/urban-development/#

3 'Residential dwellings' include Houses, Apartments, Flats, and Townhouses only. Data sourced from Corelogic

These lower quartile values sit at about 80 to 85 % of market averages.

As a result of high prices, home ownership rates have been declining in Hamilton City, but not Waipā or Waikato. See Table 2.

Table 2: Home ownership

Area	2006	2013	2018
Hamilton City	61%	57%	54%
Waipā District	72%	70%	71%
Waikato District	69%	67%	71%

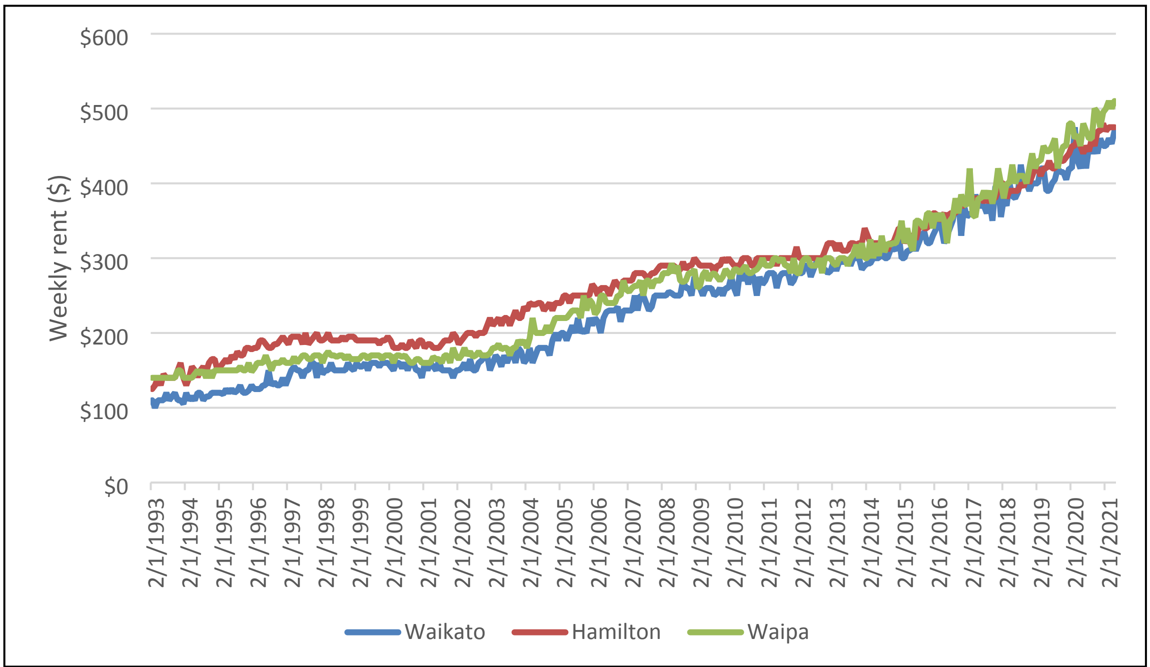
Source: Stats NZ

Māori and Pacific peoples have lower household ownership relative to the general population.

The data suggests that ownership affordability is likely to be more of an issue for Hamilton, while rental affordability may be a bigger issue for Waipā and Waikato.

Rents have increased significantly. As of June 2021, median weekly rents in the Hamilton area are $475; $470 in Waikato and $510 in Waipā. The higher rents in Waipā relative to Hamilton or Waikato may be as a result of higher demand, or larger properties. Lower quartile rents are $400; $350; and $425 respectively. Figure 4 shows MBIE median rental data from 1993 through to 2021[4].

Figure 4 MBIE Rental data (median weekly rents)



[4] Sourced from: https://www.tenancy.govt.nz/about-tenancy-services/data-and-statistics/rental-bond-data/

Source: MBIE Rental Bond Data

4.1.1 Supply response

The sub-region will require a significant number of new houses over the long-term.

In addition, there may also be an existing shortfall to address. One estimate is that there is an existing housing supply shortfall of around 4,000 houses in community and social housing in Hamilton[5].

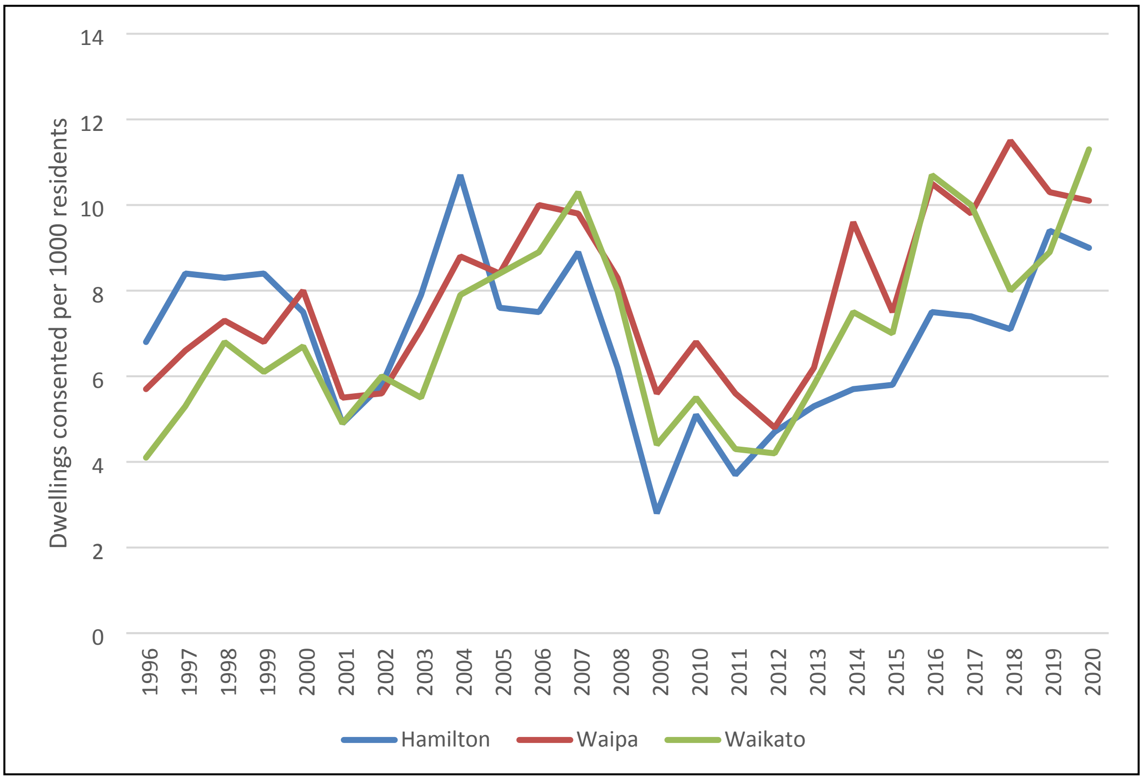
The adequacy of housing supply given high demand is currently being reviewed by the Councils in response to the National Policy Statement on Urban Development. A Housing and Business Development Capacity Assessment has recently been completed[6]. This work confirms that there is an adequate supply of land in aggregate to meet future demands. However, there may be miss-matches in local areas and by housing type. This point is discussed further in the next section.

Figure 5 shows recent trends in the rate of house building across the three councils, based on building consent data.

Figure 5: Dwellings consented per 1000 residents

[5] Waikato Region Housing Initiative – 2018 Housing Stocktake. Prepared by Nifa Limited in collaboration with the Waikato Plan – Waikato Region Housing Initiative Working Group

[6] NPS-UD Housing Development Capacity Assessment Future Proof Partners, 30 June 2021 final draft.



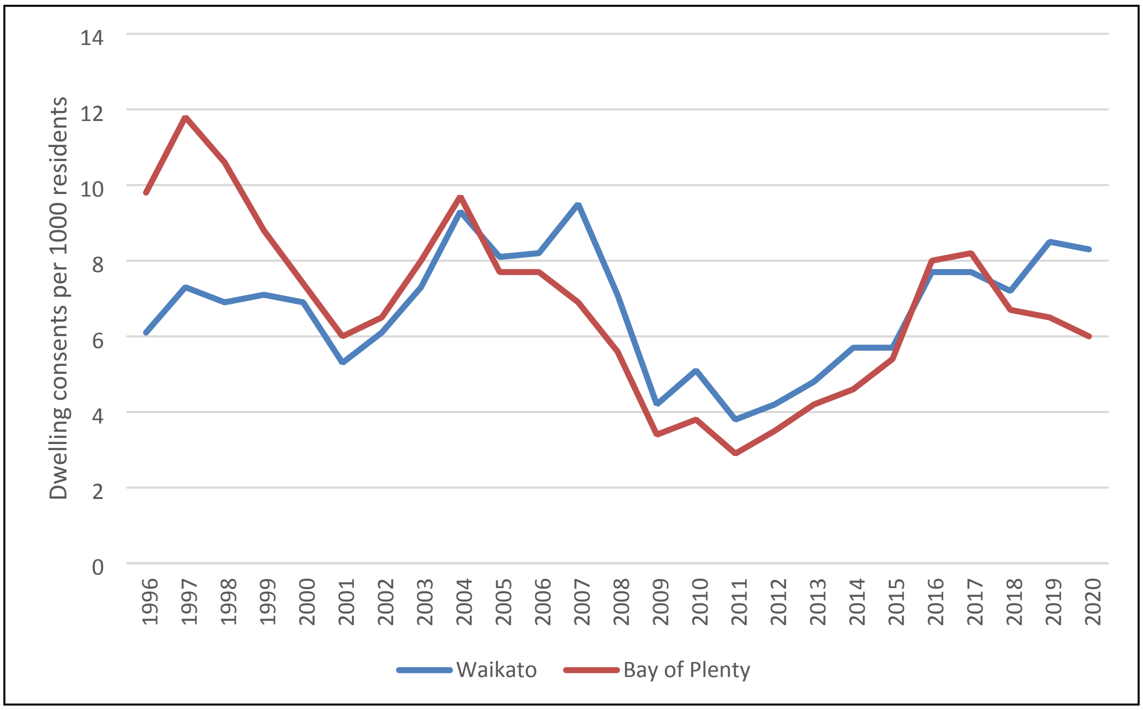
Source: MBIE Urban development dashboard

Figure 5 is based on building consents issued for all types of residential units, per 1,000 residents. The data shows a similar trend across the three councils. There has been a strong upward swing in the rate of building since 2012, following a collapse during the Global Financial Crisis of 2008 to 2010.

The rate of building consents issued per 1000 residents enables simple comparisons across time and between different areas. However, it is not a perfect measure of supply responses. The number of consents issued is dependent upon expectations of growth rates, so a low rate of building consents being issued per 1000 residents may be the result of anticipated low demand for new housing, rather than constraints or barriers inhibiting building consents being sought.

Figure 6 is a comparison between Waikato Region and Bay of Plenty Region. Similar trends are evident, with Waikato Region being somewhat more responsive in the period post 2010.

Figure 6: Dwelling consents: Waikato Region versus Bay of Plenty Region



Source: MBIE Urban development dashboard

In terms of demand for houses from new residents versus supply of additional housing (rather than comparison of new house building to existing residents), the following tables show estimated yearly growth of residents from 2016 (July years)[7] and corresponding number of building consents issued in the same time period for new dwellings[8].

Looking at the period 2016 to 2020, the population of Hamilton has expanded by around 15,700 people, while 5,620 residential units have been consented. This is one consent per 2.79 additional residents. While not all building consents will be actioned, and some consents will be for replacement dwellings, the data suggests a relatively buoyant house building market, relative to population growth.

Table 3: Hamilton City population increase versus residential building consents

Hamilton City	2016-17	2017-18	2018-19	2019-20	2016-20
Population increase (estimated)	4,300	3,500	3,700	4,200	15,700
Residential building consents issued	1,214	1,192	1,620	1,594	5,620
Population per dwelling	3.54	2.94	2.28	2.63	2.79

[7] Stats NZ Population estimates

[8] There is likely to be a lag between population growth and building consents being issued. However, to keep the comparison simple, the tables do not assume any lag.

The number of new residents per dwelling consented may be artificially high if affordability constraints limit rates of formation of new households. If a trend towards smaller households (number of residents per dwelling) was maintained, for example 2.6 people per new dwelling, then 6,000 dwellings would have been needed to house the new population, or 400 more than consented by Hamilton City Council, over the period 2016 to 2020.

Waikato District shows a similar pattern. Historical data suggests a ratio of residents to dwellings of around 3.0. This would imply 3,400 dwellings were needed over the period 2016 to 2020, not the 3,000 consented.

Table 4:Waikato District population increase versus residential building consents

Waikato	2016-17	2017-18	2018-19	2019-20	2016-20
Population increase (estimated)	3,000	2,600	2,200	2,500	10,300
Residential building consents issued	753	628	717	937	3,035
Population per dwelling	3.98	4.14	3.07	2.67	3.39

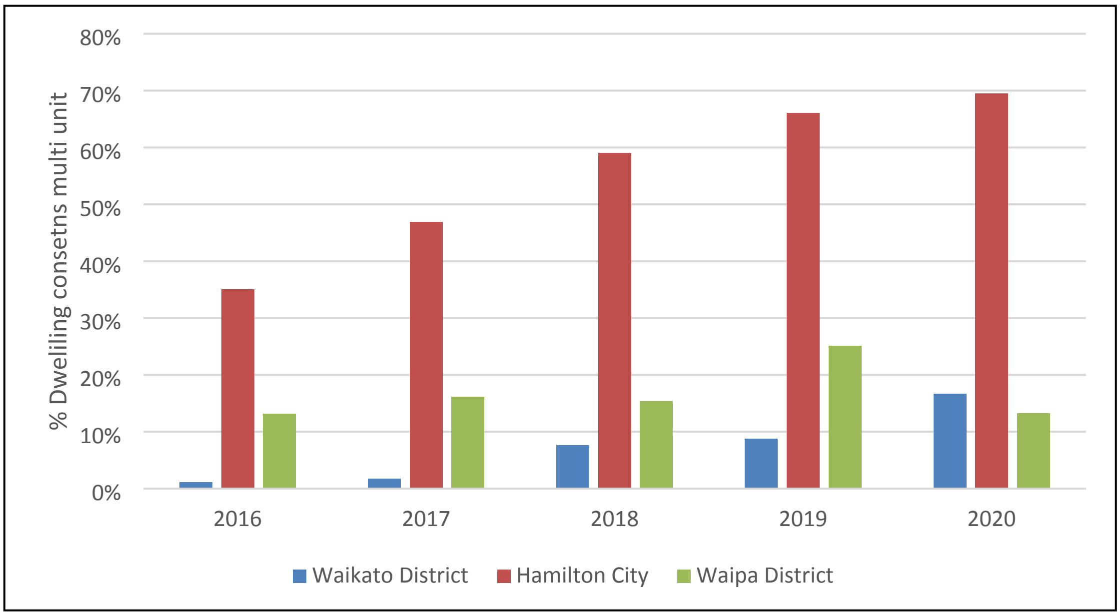
Waipā has seen 2,300 dwellings consented against an estimated population increase of 5,600 people between 2016-2020.

Table 5: Waipā District population increase versus residential building consents

Waipā	2016-17	2017-18	2018-19	2019-20	2016-20
Population increase (estimated)	1,500	1,300	1,300	1,500	5,600
Residential dwelling consents issued	528	634	581	582	2,325
Population per dwelling	2.84	2.05	2.24	2.58	2.41

In terms of the type of dwellings being constructed, Figure 7 shows the percentage of dwelling consents issued for multi-unit development – apartments, town houses, flats and retirement units. Hamilton City is recording over 60% of new dwellings in these more intensive typologies, which is a significant share of growth for a medium sized city.

Figure 7: Share of building consents for intensive forms of housing



Source: Stats NZ

Waipā and Waikato are much more focused on stand-alone houses.

4.1.2 Incomes

Household incomes have not kept up with house price growth. Median household incomes as of 2018 vary across the three jurisdictions. See Table 6.

Table 6: Median Household Incomes

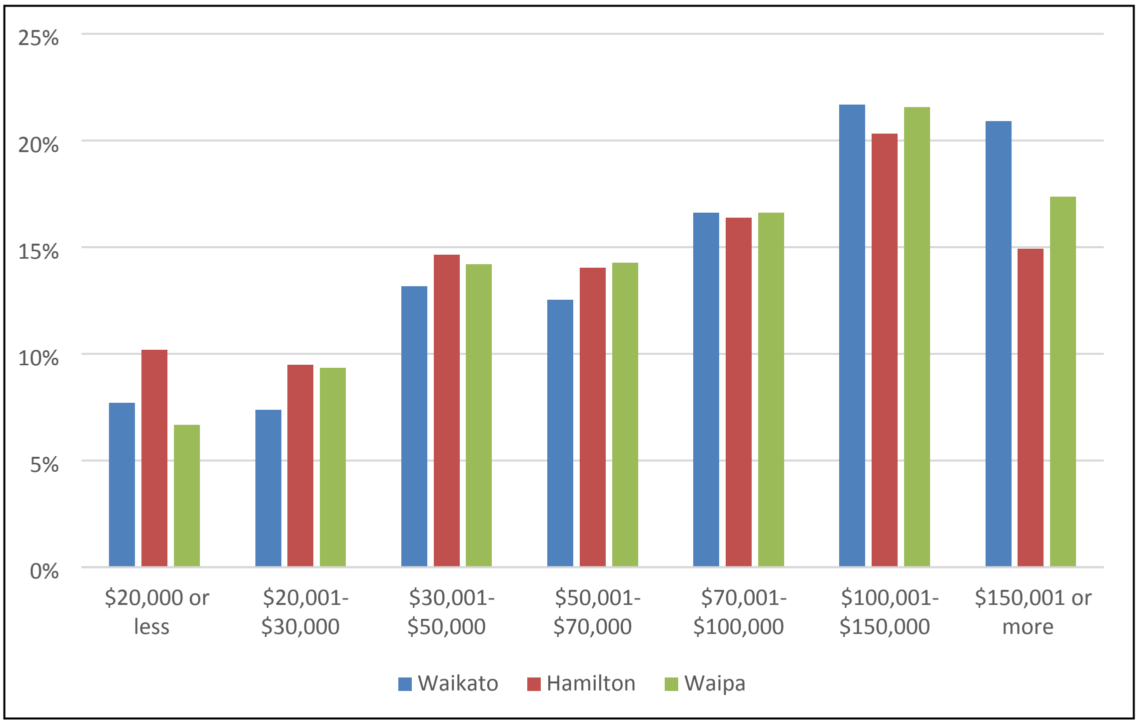
Area	Median Household Income 2018
Waikato	$ 86,600
Hamilton	$ 73,000
Waipā	$ 80,000

Source: 2018 Census

Hamilton has a lower median income than Waikato or Waipā. Waikato and Waipā's median will reflect the influence of rural activities – their urban populations may have a lower median. As a comparison, for New Zealand as a whole the median household income in 2018 was $75,700.

Figure 8 shows the distribution of households across the income bands, for 2018.

Figure 8: Share of households in income bands, 2018



Source: 2018 Census

Hamilton has a greater proportion of households in lower income bands.

Based on 80 to 120% of median income, the following numbers of households are present in each district. See Table 7.

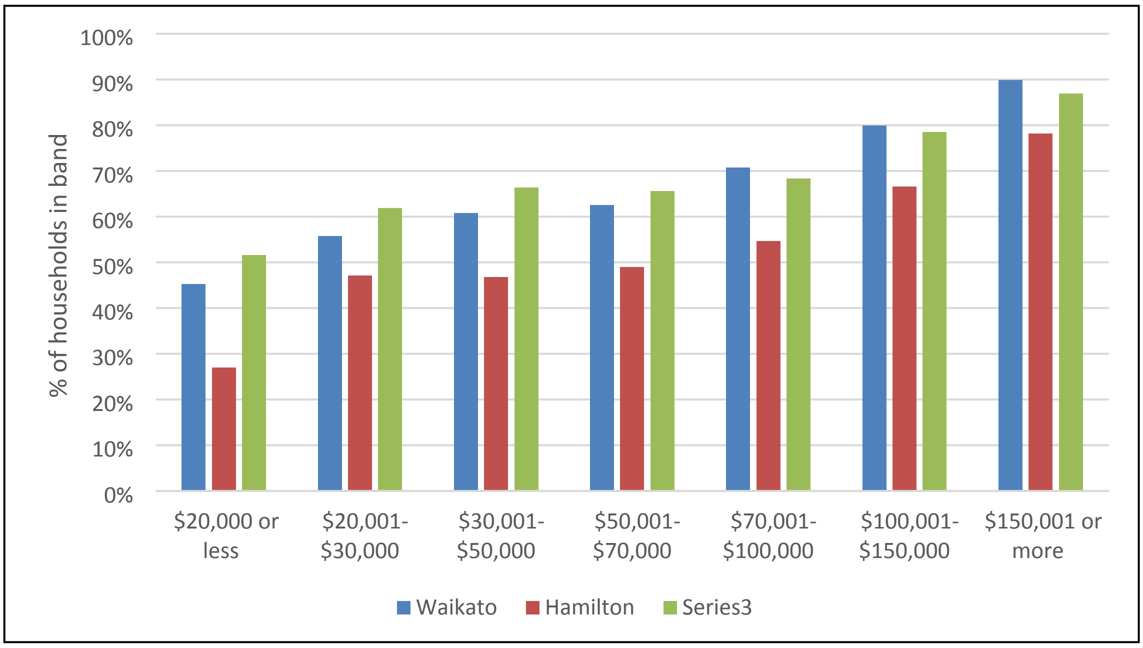
Table 7: Number of households between 80 and 120% of median income

Area	80% of median income	120% of median income	Estimated number of households between 80 and 120% of median income
Waikato	$ 69,280	$ 103,920	3,800
Hamilton	$ 58,400	$ 87,600	7,700
Waipā	$ 64,000	$ 96,000	3,000

Hamilton's 7,700 households in the 80 to 120% band represent around 14% of total households in the city. Assuming overall growth of around 1,400 households per year, and similar income profiles, then around 200 affordable homes may be required each year, if this is the 'target' market.

Figure 9 shows rates of home ownership by income bands. In the 'middle $70,001 to $100,000' income band, home ownership rates in Hamilton are about 55%, as compared to 70% in Waipā and Waikato.

Figure 9 Home ownership by income band, 2018



Source: 2018 Census

4.2 Affordability assessments

4.2.1 Household Incomes versus house prices

The ratio of house prices to household incomes provides a very simple, broad measure of affordability. House prices around three times median income was once considered affordable, but current low interest rates and bank lending criteria see income to house price ratios more like five to six times income. For example, median income of $80,000 translates into an affordable house price of around $480,000.

There are various agencies that regularly produce reports on incomes versus house prices. They use different measures of income and house prices. Two examples - *Corelogic* and *Interest NZ* are examined below.

Corelogic[9]

Corelogic home affordability report (February 2021) tracks average house prices with average gross household incomes across the main centres.

As at Q4 2020, the average property value across NZ was 6.8 times the average annual household income. That is up from 6.5 in Q3 2020 and also higher than 6.3 in Q4 2019.

Corelogic report that Hamilton, Wellington, and Dunedin all have house value to income ratios between six and seven, which are lower than Tauranga and Auckland. By contrast, Christchurch's

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9 https://www.corelogic.co.nz/sites/default/files/2021-02/Q4_2020_NZ%20Housing%20Affordability_Report-230221-V4.pdf

value to income ratio of 5.2 is in line with the long term average and well below the previous peak of 5.9 (Q2 2007).

Corelogic note that for much of the past 10 years or so, Hamilton's property prices have been growing ahead of incomes, with affordability steadily worsening. In 2010, the value to income ratio was 4.3, but over the next five years it rose to 5.5, and now stands at 6.7. Repayments currently absorb 32% of gross household income, above 2015 and 2010 (28%). The number of years required to save a deposit has also risen over time (from 5.7 in 2010 to 8.9 now), while the rent to income ratio has also increased.

Figure 10: Corelogic analysis of Hamilton City affordability

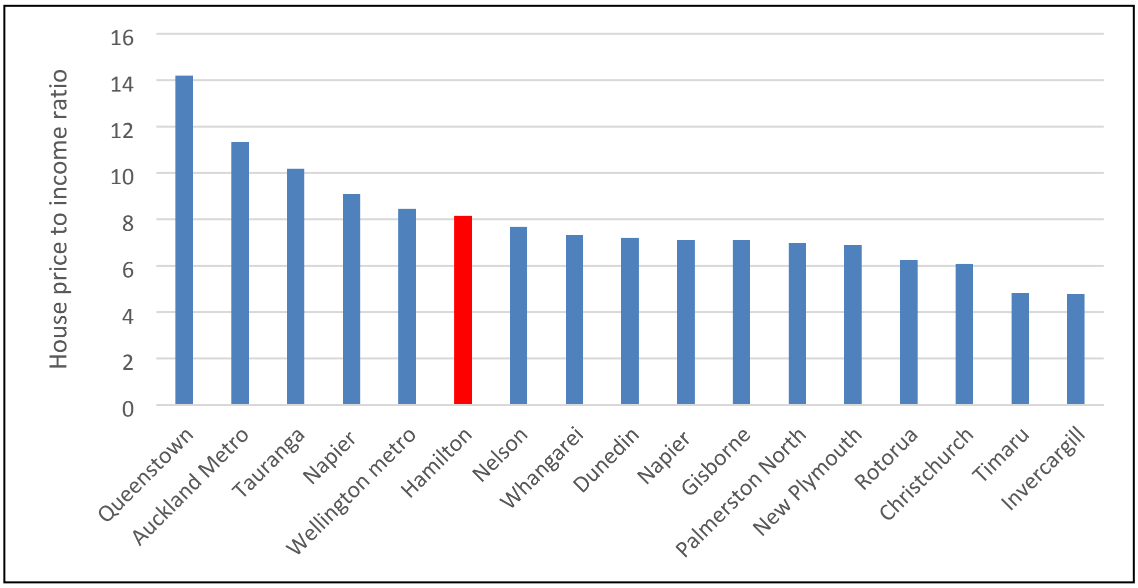
	Average property value		Average annual household income		Value to income ratio	Share of income for repayments	Years to save deposit	Rent to income ratio
	$	% Change	$	% Change				
15 years ago (Q4 2005)	$299,177		$62,376		4.8	36%	6.4	20%
10 years ago (Q4 2010)	$326,595	9%	$76,494	23%	4.3	28%	5.7	19%
5 years ago (Q4 2015)	$444,211	36%	$80,960	6%	5.5	31%	7.3	20%
Latest (Q4 2020)	$674,562	52%	$101,055	25%	6.7	32%	8.9	22%

Note: Corelogic uses average incomes, rather than median incomes. Average incomes can be influenced by a few, very large incomes.

Interest NZ

Interest NZ provides a different measure of incomes to house prices. Interest NZ uses median income based on a household comprising of one full time worker on a median income, and one worker on 50% of a median income, both in the 30-34 age range, plus the Working For Families income support they are entitled to receive under that program. This standardised household is assumed to have one 5 year old child.

Figure 11: Interest NZ ranking of affordability (worst to best), 2021



Data for Waikato and Waipā districts is not available. It is estimated that the districts have house price to incomes sitting at between 4.5 and 5.5.

4.2.2 Income devoted to housing

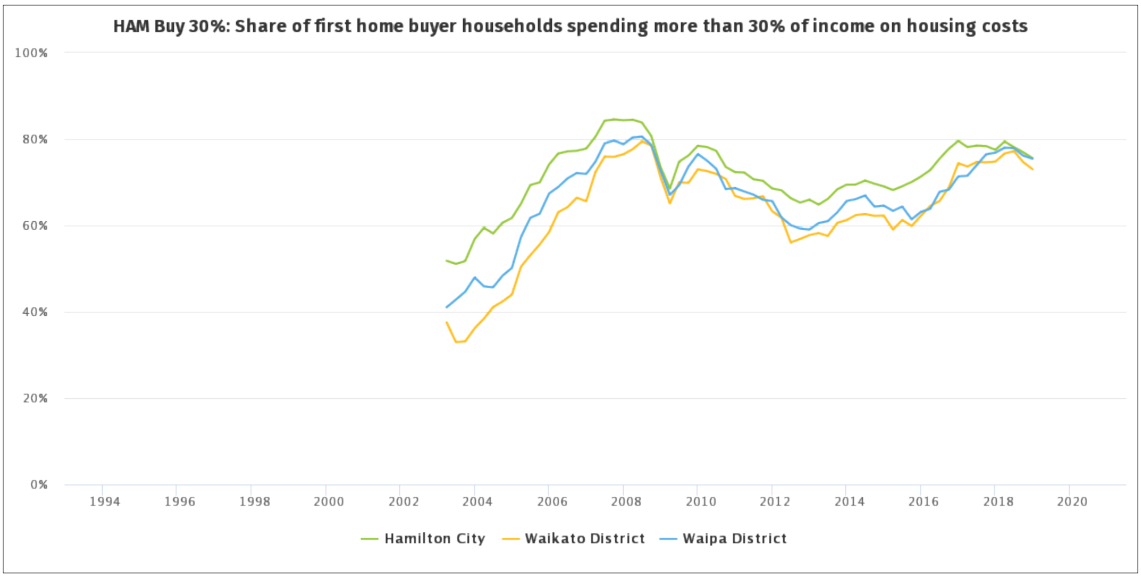
MBIE regularly track housing affordability. Their Housing Affordability Measure (HAM) measures trends in housing affordability for the first home buyer household:

1. Housing Percent Buy is an estimate of how many renters would spend more than 30 percent of their income if they bought a lower quartile house with the same number of bedrooms as their current house, in the area that they currently live in.
2. Housing Percent Rent identifies the proportion of renters in an area (region, territorial authority and Auckland wards) whose rent is more than 30 percent of their household income.

Affordability is affected by dwelling prices, mortgage interest rates and the incomes of households.

On the first measure, around 75% of Hamilton city first homeowners are spending more than 30% of their incomes on housing costs, with a similar percentage in Waikato and Waipā.

Figure 12 Housing affordability – first home buyers

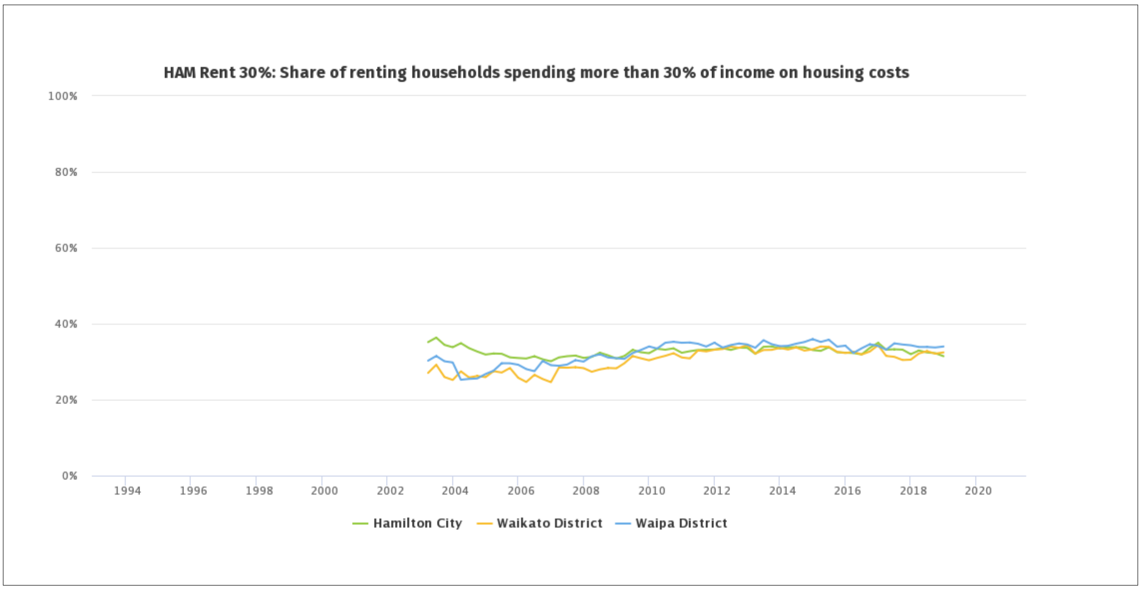


Source: MBIE urban development dashboard

The high percentage of households spending more than 30% of income on housing costs suggests that households are often prepared to cut back other spending to achieve home ownership. The data also suggests that an affordability metric of households spending no more than 35% of gross income may be a more appropriate reflection of the trade-offs involved, than a 30% cut off.

Figure 13 shows the share of renting households spending more than 30% of income on rents. The percentage has remained stable over the past 10 years, suggesting rents are much more tied to incomes than house prices.

Figure 13: Share of renting households spending more than 30% of income



Source: MBIE urban development dashboard

As an alternative measure, Interest.co.nz run a home affordability assessment for 'first home' buyers purchasing a lower quartile house. The June 2021 assessment for Hamilton is as follows[10].

Table 8: Housing affordability

Area	10% deposit	Years to save deposit	Required Mortgage	Weekly repayments	Weekly income median for couple, (after tax)	% after tax income
Hamilton	$65,150	3.7	$586,350	$625	$1,733	36%

The after tax income is relatively high, as it is based on two workers.

Key Points

The data on affordability suggests more modest affordability issues for the three FPP Councils, compared to places such as Auckland and Queenstown. Yet ownership affordability has deteriorated in Hamilton. As with most areas of New Zealand, the rise in house prices has had a particular impact on first home buyers through rising deposit requirements and requirements for larger mortgages.

The extent to which 'underbuilding' may have contributed to affordability issues is not clear with the data suggesting a reasonably buoyant house building market in the last 5 years or so.

While affordability issues are not at a 'crisis point', affordable housing programmes are a long term strategy aimed at mitigating future effects, as much as they seek to address existing problems.

[10] https://www.interest.co.nz/property/111404/house-prices-affordable-end-market-have-stopped-rising-they-arent-getting-any

5. Capacity for Growth

The capacity to accommodate growth demands is an important input into the future response of housing markets to high prices, and whether affordability may worsen or improve. This section reviews data on housing capacity versus likely housing demands.

5.1 Housing and Business Development Capacity Assessments

5.1.1 2017 Assessment

By way of context, a 2017 housing capacity assessment for the Future Proof area[11] determined that development capacity for housing was well supplied across the Future Proof sub-region. Overall, there was ample supply of current housing development capacity in the short and medium terms. The house value band sufficiency analysis suggested that there was likely to be some shortfalls in the lower dwelling value bands across the Future Proof sub-region, with shortfalls increasing in the longer term.

A summary of the assessment noted that there were multiple initiatives then underway to increase supply in the medium and long term. In Hamilton, housing capacity was available via the sequence of greenfield growth cells around the edges of the city and a large amount of infill and redevelopment capacity within the existing urban area. In Waikato and Waipā, assuming that more housing development opportunities would become feasible over the medium to long term, and that additional capacity will become enabled in the districts, the assessment concluded that there was likely to be sufficient feasible capacity to meet the demand plus an additional margin in the medium to long-term period.

5.1.2 2021 Update

The FPP has recently completed an updated housing and business capacity assessment[12].

At the combined FPP level, the analysis suggests high demand with sufficient capacity that can be realised in Hamilton and Waipā. The data in the report suggests under capacity in Waikato in the short term, but the proposed district plan review is addressing this.

Figure 14 shows short term (next 3 years) demand for urban houses (plus a 20% margin) versus capacity that can be reasonably realised.

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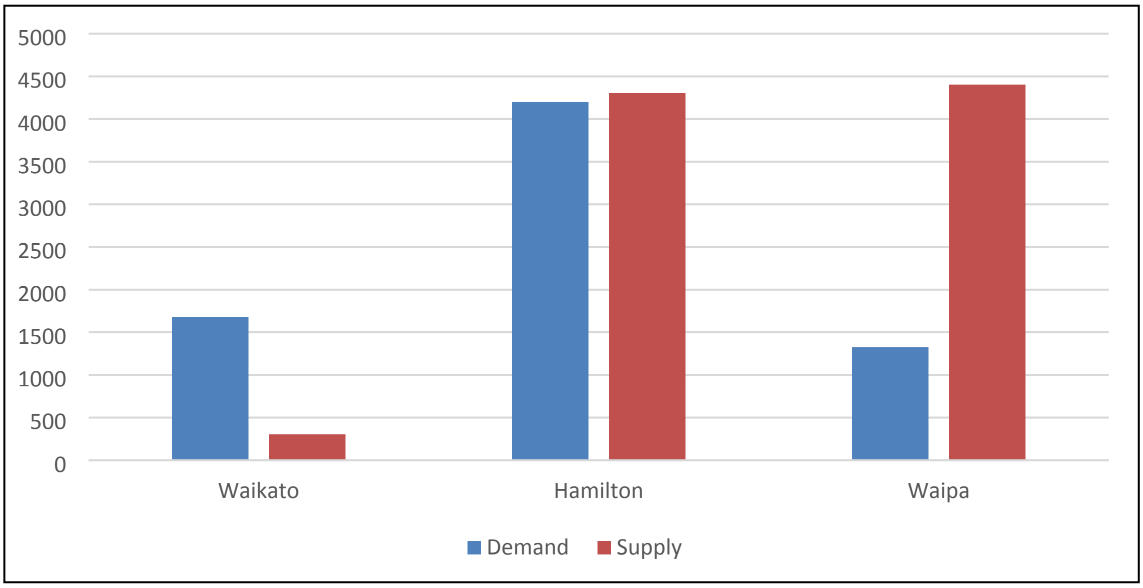
[11] Housing and Business Development Capacity Assessment 2017 Summary Report

[12] NPS-UD Housing Development Capacity Assessment , Future Proof Partners, 30 June 2021 – final draft

Figure 14: Urban demand versus likely supply, 2021-2024



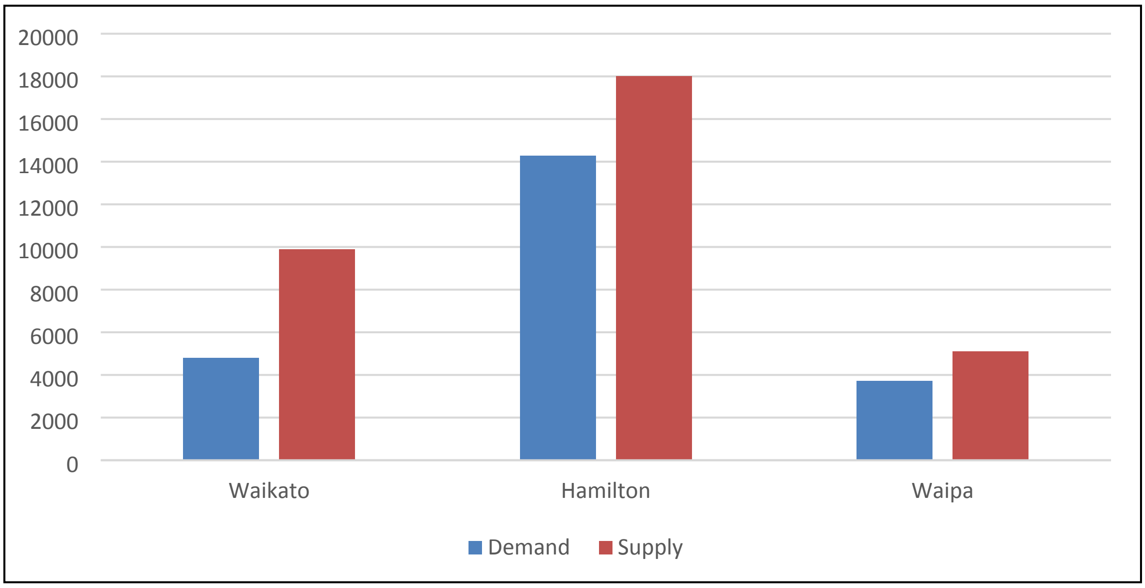
Source: Future Proof Housing and Business Capacity assessment 2020

In terms of specific factors:

- Hamilton's existing urban area contains the largest amount of plan enabled capacity for additional dwellings;
- around half of Hamilton City's and Waikato District's households are 1-2 person households
- currently around four-fifths (83%) of the demand in Hamilton is for detached dwellings, while within Waikato, currently around 95% of the demand is for detached dwellings; and
- for Waipā, currently around 91% of the demand for housing is for detached dwellings. Under the base case scenario around four-fifths (82%) of the future additional dwelling demand is for detached dwellings.

In the medium term (10 years out), capacity that is estimated to be reasonably likely to be realised exceeds demand. See Figure 15.

Figure 15: Housing demand versus supply, medium term (2021-2031)



Source: 2020 HBCA

5.1.3 Affordability

Key findings as they relate to affordability:

- there are projected shortfalls in capacity within the lower to mid value bands of the market as the feasible development options tend to be concentrated into the mid to higher dwelling value bands;
- these shortfalls may be partly offset by movement within the housing market where a large share of the new dwelling capacity is likely to be occupied by existing households moving upward within the market, consequently freeing up capacity within the lower value parts of the existing stock; and
- the shortfalls in capacity within the lower dwelling value bands are generally projected to increase through time.

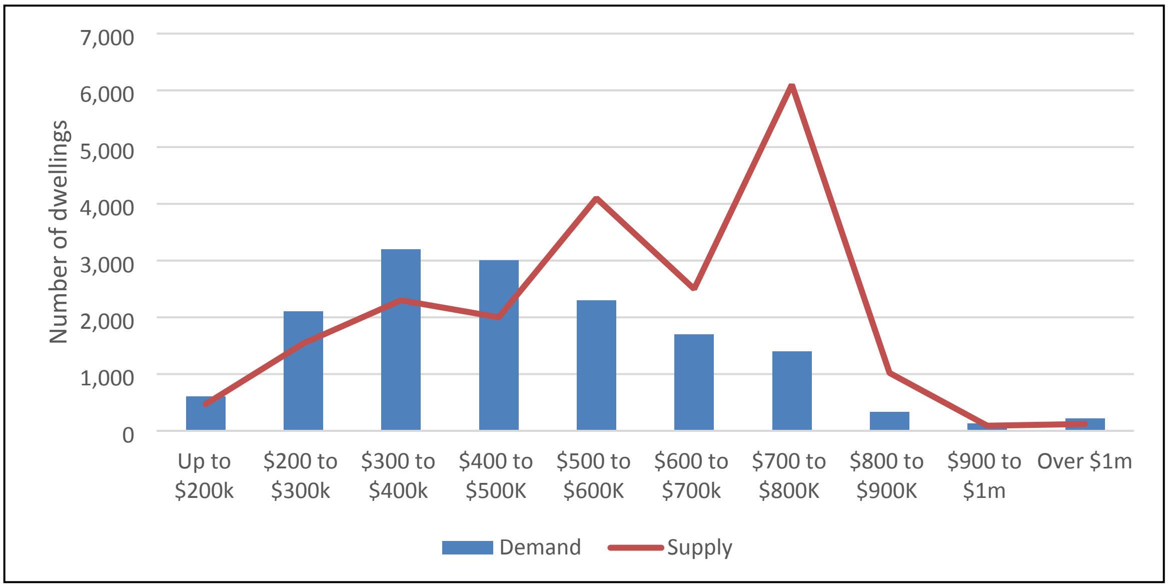
The HBCA assessment has found that FPP planning decisions may have some impact on affordability within the local housing market, but that the largest impact comes from non-planning factors. The assessment shows that there is a large amount of zoned feasible development options available beyond the scale of demand within most urban areas. This suggests that there is unlikely to be a constraint, in the medium-term, associated with the level of zoned (and infrastructure-served) opportunities available to the market.

5.1.4 Waikato district

At the district level (for the medium term) there is a surplus of capacity in Waikato District, with overall sufficiency ranging from 108% (Raglan) to 171% (Pōkeno/Tuakau) (with the mid-district urban areas at 124%). However, all three areas continue to show significant shortfalls in capacity across the lower to mid dwelling value bands (up to \$500k to \$700k). There is 'surplus' capacity in the \$700k to \$900k range which may be redirected by developers to the lower band to meet unmet demand.

Figure 16 shows the combined analysis for Waikato District, for the medium term (i.e. out to 2030), showing estimated demand and supply, across house price bands.

Figure 16: Demand vesus supply, medium term (2021-2031), by house price, Waikato District



Source: Future Proof Housing and Business Capacity assessment

These estimates are based on:

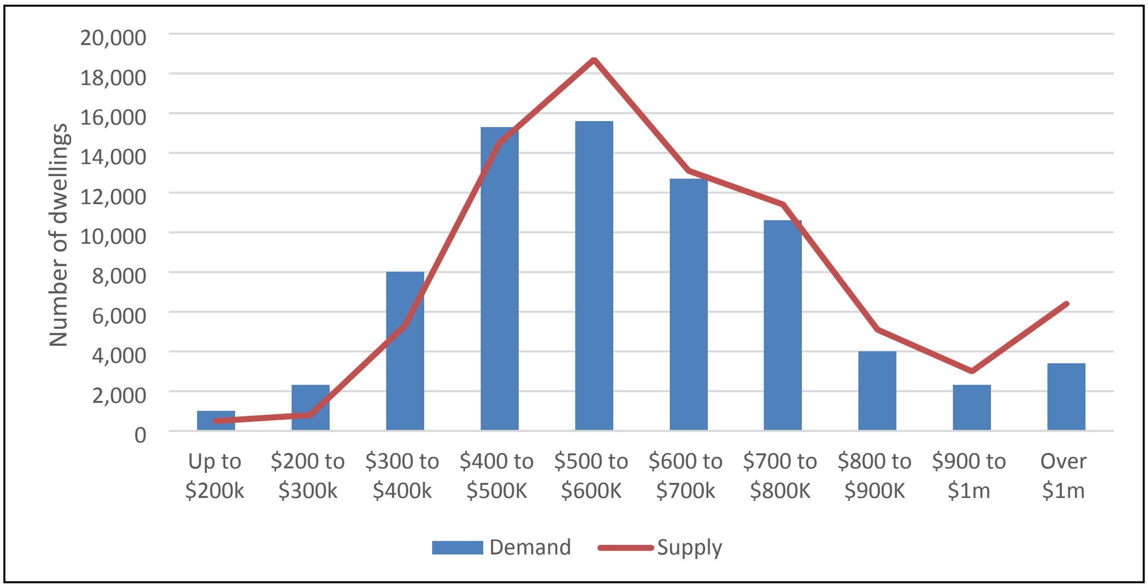
- housing demand plus NPS-UD margin;
- current income levels and prices; and
- expected supply (based on reasonably expected to be realised zoning capacity).

5.1.5 Hamilton City

In contrast to Waikato, Hamilton City shows a better match between demand and supply.

Overall, analysis shows a surplus of around 3,700 dwellings at the total level, equating to a sufficiency of 105%. However, there are projected shortfalls across the lower dwelling value bands, and surpluses within the higher value bands. There is a projected shortfall of around 5,500 dwellings within the lower bands up to $500k. The sufficiency across these value bands amounts to 79%. See Figure 17.

Figure 17: Demand versus supply, medium term (2021-2031), by house price, Hamilton City

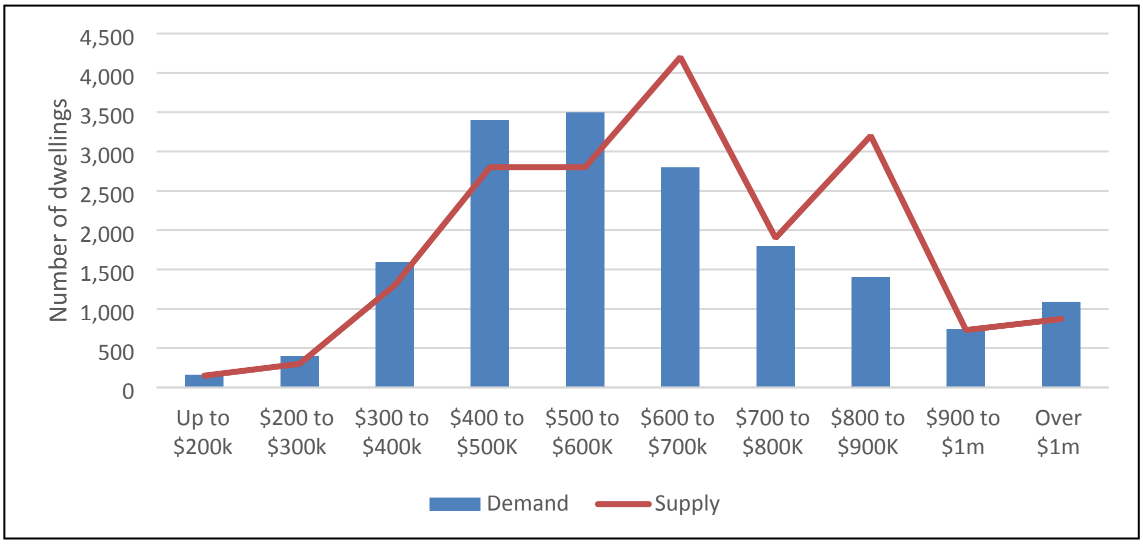


Source: Future Proof Housing and Business Capacity assessment

5.1.6 Waipā

Across Waipā District's two main urban areas (Cambridge and Te Awamutu/Kihikihi) there are surpluses projected for the medium-term. The current feasible capacity on the infrastructure-served greenfield areas (taking into account likely yields) substantially exceeds the projected medium-term demand. In the medium-term, there is a projected surplus of around 1,400 dwellings across the areas combined, under the current prices scenario.

Figure 18: Demand versus supply, medium term (2021-2031), by house price, Waipā District



Source: Future Proof Housing and Business Capacity assessment

In Cambridge, the shortfalls are projected to increase to around 1,300 dwellings in the low to mid dwelling value bands (up to $700k), with overall sufficiency decreasing to 76% across these value bands.

The projected shortfalls in the lower dwelling value bands are also projected to increase within Te Awamutu/Kihikihi into the medium-term. Under the current prices scenario, the shortfall is projected to increase to around 900 dwellings in value bands up to $600k. This equates to a sufficiency of 84% of total market demand across these value bands.

Key Points

The review of housing demand and capacity highlights the following points:

- there is a miss-match between housing demand and housing supply, with supply focused on mid to upper quartile prices, while demand is from across the spectrum
- planning constraints (or barriers) are not assessed to be the main cause of this miss-match. There is the ability for the market to 're-direct' some new home capacity to meet middle income households, but limited signs that this will occur in practice
- variable relationships between demand and supply across the three districts may see some differential growth pressures arise. Lack of affordable product is likely to drive some displacement of demand from central areas to more peripheral areas, including South Waikato. This creates pressure to expand smaller settlements where infrastructure provision may be an issue
- conversely, Hamilton may see added pressures, if affordable housing is not provided for in Waipā and Waikato
- without access to housing stock appropriate for workers involved in a range of activities, it is possible that some economic diversification may be stymied
- a reliance on renting to meet housing needs can see a lack of stability across neighbourhoods, leading to a reduction in social capital.

6. Strategic Response

The lack of affordable housing is creating a number of issues for resource management, including displacement of demand to outlying settlements. This increases pressures on transport networks, while demand for out of sequence growth may create significant infrastructure commitments for councils.

The following section briefly reviews current plans and strategies and the extent to which they provide for resolution of the above resource management issues.

6.1 Strategic planning

Hamilton City, Waipā District and Waikato District are members of Future Proof.

Key features of the 2017 Future Proof Strategy include:

- increased densities in new residential development
- more intensive redevelopment of some existing urban areas.
- supporting Hamilton City to be a vibrant and lively place that people want to live, work, play, invest and visit
- protection of the natural environment
- providing housing choice
- supporting opportunities to address housing affordability
- green spaces
- protection of versatile and productive rural land
- protection of future infrastructure corridors
- coordinating transport and land-use planning integrating land use, infrastructure and funding.

These strategies are in response to the strong growth pressures being experienced in the FPP area. Growth is being driven by 'spill over' growth from the Auckland Region, as well as from expansion of the local economies.

A key feature of the 2017 strategy is building on current settlement patterns. Figure 19 shows the main spatial arrangement.

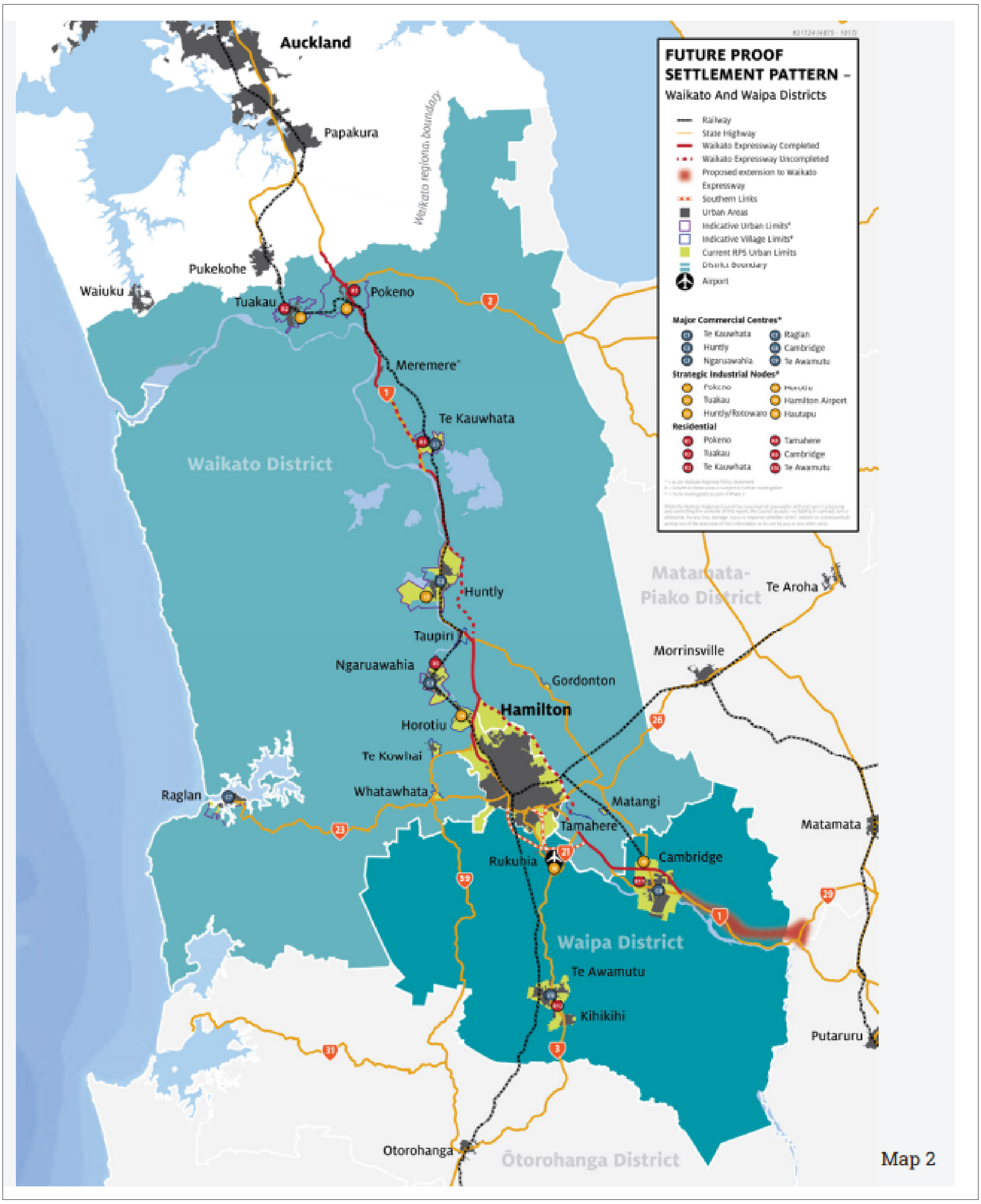


Figure 19: Future Proof 2017 Spatial Strategy

Hamilton City has an urban focus with most growth by way of an equal mix between greenfields growth and infill (50% infill, 50% greenfield).

Waipā District's focus is on the two 'satellite' towns of Cambridge and Te Awamutu where about 80% of the district's growth is likely to be accommodated (45% Cambridge, 35% Te Awamutu/Kihikihi), with the remaining growth in villages (10%) and rural environments.

Waikato district has a roughly 50/50 split between townships and rural areas. Of the townships, Tuakau and Pokeno are expected to grow the fastest, given their proximity to Auckland.

FPP are continually updating their plans in response to growth pressures and changing policy directives.

The main strategy to address affordability issues is to support and enable housing supply options.

6.2 Spatial planning

The Hamilton-Waikato Metropolitan Plan (Metro Spatial Plan or MSP) is being delivered through the Future Proof Partnership and is one of the initiatives being delivered as part of the broader Hamilton to Auckland Corridor Plan. The MSP has a stronger focus on housing supply.

There are six transformational moves for change, one of which is directly relevant to affordable housing: thriving communities and neighbourhoods.

> *Thriving communities and neighbourhoods - enabling quality denser housing options that allow our natural and built environments to coexist in harmony increasing housing affordability and housing choice to meet the needs of growing and changing communities.*

To achieve this outcome, the MSP proposes an urban environment that is a mix of higher density growth primarily around centres, and growth along key public transport corridors, with increasing densities in greenfield areas. Approximately 70 percent of growth will be focussed in Hamilton, with around 30 percent of growth in key townships in the Waikato and Waipā districts. Of this growth, around 50 percent will be provided through infill or intensification of existing urban areas. While the MSP directs growth to these areas it is important to note that the plan assumes a limited amount of ongoing growth will occur outside of these identified areas, in line with district growth strategies and FPP.

The MSP makes the following statements in relation to housing affordability and choice:

The MSP will contribute towards reducing the cost of supplying housing and increasing housing affordability and choice. The plan primarily addresses housing affordability through land supply and housing development in the appropriate places. In summary, the key elements of this approach include:

> *• Enabling a range of locations for housing, at a range of densities, which will provide the opportunity for a diverse range of housing types.*
>
> *• Providing opportunities for housing and lifestyle choice, including papakaainga, within defined locations, with greater emphasis on good urban design.*
>
> *• Identifying a range of urban development opportunities to enhance competitive land markets which can contribute to more affordable housing.*
>
> *• Social housing will continue to be explored through the already established Waikato Housing Initiative.*

6.3 Growth and housing strategies

6.3.1 Hamilton

Hamilton City has prepared a Housing Strategy[13]. The Strategy signals that the Council wishes to take a range of actions to address housing issues, beyond the 'core' functions of zoning and infrastructure provision. The Strategy has four goals, one of which is that Hamilton / Kirikiriroa has a well functioning housing system. This includes more availability and choice of housing and more affordable homes.

Actions include identifying district plan changes, working with the Waikato Community Lands Trust, and investigating Inclusionary Zoning.

In terms of financial actions, the Council has committed $2 million to support the initial acquisition of land by the Lands Trust. Council also supports Social Housing through its development contributions policy. This policy provides for the remittance of development contributions of up to 100% to social housing developments. Relevant criteria that the Council take into account cover:

- the development must deliver not-for-profit housing;
- the applicant on the building consent or resource consent must be registered as a community housing provider with the Community Housing Regulatory Authority;
- the development will provide social and/or affordable rental housing.

6.3.2 Waipā

Waipā's 2017 Growth Strategy[14] recognises that urban form, housing types, housing needs of an ageing population, design, location and affordability are some of a number of challenges facing the district. The strategy promotes a more flexible approach to land supply in locations of demand than previous strategies.

The Strategy states that Waipā will continue to have a land-based economy and protect its natural resources including soils as well as its land uses. No significant areas of additional industrial land are expected to be required (demand for more industrial land will be catered for by growth areas which have already been identified, i.e. Bond Road, Hautapu, Titanium Park and Paterangi Road).

6.3.3 Waikato

Waikato's 2070 Growth Strategy[15] recognises the growth pressures the district is under, particularly spill-over growth from the Auckland Region. One of the actions of the strategy is to help deliver inclusive growth. Affordable housing is not directly mentioned, however there is a strong emphasis

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[13] https://www.hamilton.govt.nz/ourcouncil/strategiesandplans/Documents/23312%20HCC%20Housing%20Strategy%20Doc_WEB.pdf

[14] https://www.waipadc.govt.nz/repository/libraries/id:26zgz4o7s1cxbyk7hfo7/hierarchy/our-council/waipa2050/documents/Waipa%202050%20Growth%20Strategy%20-%20Final%20November%202017.pdf

[15] https://openwaikato.co.nz/wp-content/uploads/2020/06/Waikato-2070.pdf

on economic growth, and as part of this, the ability to house workforce locally for existing and future industries is an important aspect.

6.4 District Plans

Attachment One sets out a scan of district plan policies relating to urban growth and housing capacity. The following section provides a brief overview of district plan approaches to growth and development.

All three Councils have yet to respond to the National Policy Statement on Urban Development and its requirements to upzone land around major centres.

6.4.1 Hamilton City

There is a sizeable amount of infrastructure ready zoned opportunity relative to long-term demand.

The city has three larger greenfields areas, with one area well advanced in terms of planning (Peacock). Most of the greenfield areas are projected to be feasible to develop and are likely to form 'reasonably expected to be realised' capacity. RMA reforms and the NPS-UD may see more greenfields areas being proposed (responsive planning).

There are opportunities for urban intensification through higher density development within the existing urban area. Hamilton is seeing a lot of infill via duplex type development on smaller lots. Within the General Residential zone, a duplex unit is possible on a 400m^2 site. The City also has a Residential Intensification Zone with a density of 1 unit per 150m^2 for duplexes or apartment buildings. The Residential Intensification Zone has a height limit of between 10 and 12.5m.

Through Plan Change 11 the Council did initially propose more liberal density provisions in residential areas, in particular:

- reducing the minimum section sizes in the General Residential Zone from 400m^2 to 300m^2;
- enabling apartments in the General Residential Zone next to open space zones around parks, the lake or the Waikato River; and
- processing apartments as a non-notified activity in the Residential Intensification Zone.

However, this plan change was withdrawn.

There is also large plan-enabled potential for higher density apartment development across the City Centre. The 2021 Housing and Business Development Capacity Assessment found that although there is large plan enabled capacity within the City Centre, there is limited projected market take-up of this capacity due to market preference factors.

Kainga Ora may lead redevelopment schemes in areas where it has a large stock of housing.

Hamilton City has experience with Special Housing Areas. Through the SHA acceptance process, the Council sought to establish an affordability requirement. The Council's definition of affordability is that:

At least 10% of dwellings must be sold at or below 90% of the Hamilton average house value where 'average house value' means the average Hamilton City residential house value for the most recently released June figure published by Quotable Value.

Other affordability requirements are that the 10% of dwellings must be built on their own exclusive fee simple titled sections and be sold on the open market to a first home buyer.

Te Awa Lakes (Hamilton District Plan) Residential Zone Policy 4.2.13c sets out that '*The development provides affordable housing through the higher density and by specifying that a minimum percentage of new homes do not exceed a maximum purchase price*'. This is consistent with an IZ approach. The associated rule is reproduced below:

4.8.8 Affordable Housing in Te Awa Lakes Medium-Density Residential Zone

a) The total Development Yield specified in Rule 4.6.2 shall include affordable dwellings that meet the following requirements;

i. At least 10% of the residential units of the total Development Yield of 892 (+/-10%) shall be sold on the open market at a price that is no more than 90% of the average Hamilton City residential house value, as shown in the most recent June figures published by Quotable Value (www.qv.co.nz) at the date of sale and purchase agreement (to transfer the property to the buyer).

ii. The buyer must not, at the time of purchase, own a residential unit either solely or jointly with another person (including as a trustee of a trust).

iii. All Land Development Consent applications shall include details of the location, number and percentage of any affordable housing units or allotments and shall include details of the cumulative total of affordable residential unit sales to date to demonstrate that 10% of affordable residential units of the total Development Yield will be achieved.

iv. Where parent fee simple titled sections or 'superlots' for future duplex or apartment units are proposed, the unit yield and future subdivision opportunity for individual fee simple titled sections shall be identified for the purpose of identifying the affordable housing yield in accordance with ii and iii above.

v. A consent notice or other legal mechanism shall be placed on the computer freehold register for each affordable residential unit and/or fee simple titled section at the time of subdivision s224 (c) certification, requiring that the provision in 4.8.8 a) i. above is to be met for three years from the date of issue of title.

vi. Not less than 9 of the Land Development Plan Areas shall include a minimum 10% affordable housing component.

Any non-compliance with this rule shall be a Discretionary Activity.

6.4.2 Waikato PDP

Waikato is currently preparing a new district plan (the PDP).

Through submission and hearing processes considerable greenfields areas are being identified as possible expansion areas.

Analysis by the Council of zoning recommendations, show that there should be marginally enough housing supply ('reasonably expected to be realised') to meet the demand in the period 2021-2036, including allowance for a 20% margin[16]. However, there are unders and overs at the settlement level.

Under the PDP as notified there is currently only limited opportunity for higher density developments provided for by the planning provisions. Options for Medium Density Residential Zone development (beyond the smaller areas in Waikato 2070) are being considered during the PDP process.

In the residential zone, key parameters are:

- one dwelling per site;
- new lots must have a minimum site area of 450m^2;
- multi-unit development requires consent and must have a density of not more than 1 unit per net site area of 300m^2; and
- minor dwellings are possible on a 900m^2 site area.

A medium density housing zone would provide scope for residential building up to 11m above ground level, subject to a range of bulk and location controls, but no density control.

6.4.3 Waipā District Plan

Waipā has significant greenfields areas. The Waipā District Plan contains 'Deferred' zones which identify areas anticipated for future residential, large lot residential, commercial or industrial development which are not yet live. Until the 'Deferred' zone is uplifted, the underlying zone (i.e. Rural) continues to apply. The Council notes that under this approach, it is difficult to bring forward new areas for development in response to growth pressures.

The Council has notified Plan Change 13[17] which seeks to 'live zone' some of these growth cells. They are:

- Cambridge – C4 and C6 with a combined area of 119ha;
- Te Awamutu – T1, T6-T10 with a combined area of 375ha.

There are also smaller growth areas as Ōhaupo and Ngahinapouri.

The decision on Plan Change 13 was notified on 9 September 2021 with the appeal period closing towards the end of October 2021.

Within Waipā District's urban areas, there are very limited options for higher density dwelling typologies. The 2021 HBA assessment found that these planning provisions have some impact on the affordability of dwellings within Waipā as they are focused on standalone dwellings on larger

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[16] SECTION 42A REPORT on submissions and further submissions on the Proposed Waikato District Plan Hearing 25: Framework report: Supplementary Evidence Report prepared by Dr Mark Davey Date: 28th April 2021

[17] https://www.waipadc.govt.nz/repository/libraries/id:26zgz4o7s1cxbyk7hfo7/hierarchy/our-council/waipadistrictplan/variations/documents/plan-change-13/Map%20of%20Deferred%20Zones.pdf

sites, which are concentrated into the mid to higher dwelling value bands. However, standalone dwellings on larger sites still form a large market preference for developers as they reflect strong patterns of demand within the market, including the exogenous retirement market demand.

6.4.4 National Policy Statement – Urban Development

The National Policy Statement on Urban Development (NPS-UD) came into effect on 20 August 2020, replacing the National Policy Statement on Urban Development Capacity 2016. District Plans will need to be updated to give effect to the Statement. The NPS-UD directs decision making under the Act to ensure that planning decisions enable development (including improved affordability) through providing sufficient development capacity for housing and business. Reference is made to enabling different housing types and prices. For example, Policy 1 refers to:

> *Planning decisions contribute to well-functioning urban environments, which are urban environments that, as a minimum: have or enable a variety of homes that: (i) meet the needs, in terms of type, price, and location, of different households;*

The NPS-UD has an emphasis on 'upzoning' around centres and public transport (Policy 3), as well as being responsive to out of sequence development proposals, as means of achieving the policy (Policy 8).

Any affordable housing requirement will need to sit within a context where it can be shown that district plans give effect to the NPS-UD. If there are doubts about implementation of the policy statement, then this uncertainty is likely to be used as an argument to not pursue an affordability requirement.

Key Points

Current spatial strategies recognise the need for settlements to expand and to relate new housing to transport networks and jobs and services. The strategies could benefit from recognising that provision of affordable housing will require active measures.

At a high level, the three FPP district plans have objectives and policies relating to being responsive to growth pressures in general, while housing assessments show excess capacity relative to demand.

There are, perhaps, three areas where work is needed to adjust 'supply' policy settings:

- greater range of housing choices in greenfields areas. Fulfilment of NPS-UD objectives and policies would suggest the need for additional mechanisms beyond minimum densities or yields for new growth areas. There is growing recognition of the benefits of a mix of housing typologies in new growth areas.
- increased building heights in residential areas. While for Waipā and Waikato, the upzoning policies of the NPS-UD may not apply (e.g. Policy 3), increased height limits are nevertheless an important way of enabling infill and redevelopment of sites, for example 3 storey development. The medium density zone proposed for Waikato is an example of this.
- Hamilton will likely have to respond to the NPS-UD policies on intensification through investigation of some form of suburban apartment zone. This would complement the

‘density’ gradient between central city high rise apartments and suburban infill through duplex houses and the like.

7. Will additional supply work?

A lack of new housing supply in highly-priced areas is generally held to be the main cause of housing affordability problems. Increasing supply opportunities is therefore seen as the best method to address this issue.

As important as the overall level of supply, is the responsiveness of land and housing markets to increases in prices. In general, increases in prices should be a signal that additional supply should be provided. A criticism of planning is that it can slow the response of subdividers and developers to increased demand.

Having an adequate supply of land for housing (greenfields and brownfields) is important. Both upzoning and further outwards expansion (as promoted under the National Policy Statement for Urban Development) will help, but infrastructure costs are likely to limit what is possible in the short to medium-term.

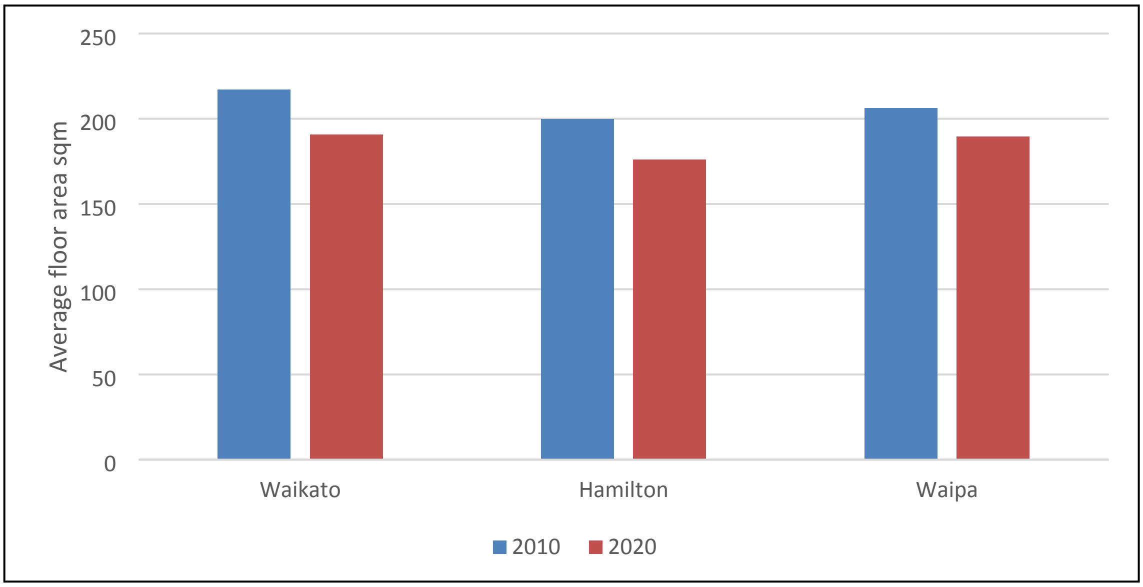
This section briefly reviews whether additional supply will lead to more affordable housing.

7.1 Market response

The expected market response to rising house prices (land and construction costs) is to reduce the size of the dwelling and the area of land on which it is located (the size of the lot).

Building permit data, see Figure 20, shows a decrease in the average floor area of stand alone dwellings between 2010 and 2020, as land and construction costs have risen.

Figure 20: Average floor area of new dwellings

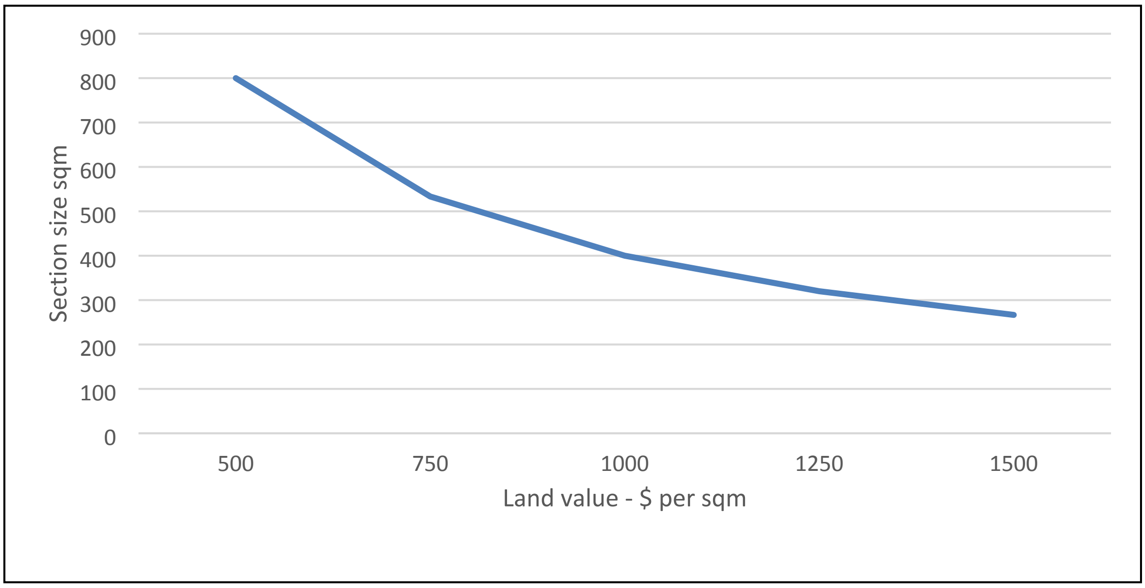


Source: Stats NZ building consent data

As land values rise and residential construction costs increase then the land area per dwelling also needs to reduce to ensure that the final product is at a price that is within the financial means of likely buyers.

Figure 21 shows this in a conceptual sense. In this case, it is assumed that a $800,000 house value is made up of $400,000 of improvements and $400,000 of land value. At $500 per square metre of land, a 800m^2 section is able to be provided. As land values rise, then to maintain the $800,000 'price point', lot size steadily decreases.

Figure 21: Land value and lot size



Note that the reduction in lot sizes helps to maintain the $800,000 price, it does not make the dwelling anymore 'affordable'.

This process means that lot sizes in greenfields subdivisions will gradually diminish, while density in brownfields areas will increase. It is important to overall housing supply that this dynamic is facilitated by zoning controls. In short, it is important that district plan minimum lot sizes and density controls anticipate gradual increases in density, rather than react to them.

New sectors of the housing market, such as 'build-to-rent' are also helpful in providing for greater choice, especially for renters looking for a long term tenancy, but they do not necessarily offer a more affordable product.

7.1.1 Further enabling supply responses

Several actions can assist in enabling supply of relatively affordable units in greenfields and brownfields; that is to make more effective use of land that is developed.

In greenfields areas, there is usually pressure to provide a fairly uniform housing product, often supported by covenants on building materials (and sometimes, floor area). While in the main metro centres, there is a growing diversity of housing product in master planned communities due to demand for affordable product, however, in second tier cities, this pressure is less evident. Instead, questions of how to ‘fit in’ smaller dwellings in a way that maintains a consistent street character of stand alone houses on separate lots becomes more prevalent. To help overcome this, two techniques can be to:

- support duplex type house designs – houses that have the appearance from the street of being a single house, yet are two separate units. For example, Fletcher Residential have a 3 bedroom duplex design that they offer in Beachlands, which is on the edge of the Auckland Metropolitan Centre. This is an area that traditionally focused on stand alone houses on separate sites. Corner sites are particularly suitable for this typology.
- provide opportunities for mews type housing, for example separate units above garages served off a rear lane. Mews is a British name for a row or courtyard of stables and carriage houses with living quarters above them, built behind large city houses before motor vehicles replaced horses in the early twentieth century. It is now commonly used for city housing of a similar design.

For brownfields – the two to three storey walkup apartment building is cost effective as they do not require a lift, nor more expensive construction techniques. To facilitate this type of development, there is typically no density control, with bulk and location on a site governed by basic parameters of yards, coverage, height, and height in relation to boundary. They do require careful urban design to minimise interface issues with adjacent sites.

7.2 Limitations of a supply response

The extent to which a ‘supply response’ is effective in addressing affordability concerns is a matter of substantial debate. This is particularly relevant given the FPP housing capacity assessments which consistently show excess capacity versus demand, yet house prices continue to climb.

At a high level, assuming that demand for housing only comes from population growth, dramatically underestimates the impact of investment demand. As long as mortgage lending continues to outpace expansion of housing supply, prices will continue to rise. The website Interest.co.nz notes that from July 2020 to June 2021, total nominal annual GDP has been about $331 billion, a rise of $14 billion. During the same time, house values have risen to $1.65 trillion, a rise over the same time period of $420 billion. In that year, the rise in house values will have exceeded the rise in economic activity in the country by an ‘eye-popping’ 30 times[18]. This is at a time when national population growth has slowed as inward migration dropped off due to Covid 19. Moves by the government to dampen down investor demand may help to contain prices, but results look uncertain.

Some studies show that simply increasing the stock of housing may not be sufficient for reducing prices, as the corresponding demand also needs to be considered. In short, increased supply may just stimulate increased demand, meaning that the additional supply gets soaked up by new

[18]https://www.interest.co.nz/news/111216/rise-past-year-total-value-our-housing-stock-has-been-unprecedented-streaking-40-times

arrivals, and the total stock on a per capita basis does not increase[19]. For example, expansion of supply and temporary lowering of prices may attract buyers from the more expensive Auckland Region. While beneficial for those who may be otherwise locked out of the Auckland market, the additional supply will not necessarily benefit low to moderate income households in the Waikato area.

Many commentators note that new housing supply now focuses strongly on mid to high end housing, with few players in the affordability area. This contrasts to the 1960s and 1970s when 'affordable' group housing builders (for example Neil Housing and Keith Hay Homes) were more prevalent. The reasons for this shift are related to a reduction of State support for new builds, as well as the growing influence of land use controls on supply, which started to drive up the price of existing houses (which in turn has a strong influence on new build values). The 1960s and 70s also saw many 'easy' greenfield areas open up as the Government invested in large roading projects.

That the new build sector focuses on higher priced housing is not necessarily seen as a negative for affordability. Additional supply benefits for affordability are predicated on the concept of filtering. The majority of homes that are "affordable" to lower-income people are older 'second hand' homes. They are not new homes. Affordable homes have some characteristic, such as age and/or appearance that make their market prices relatively low. It is often held that filtering of housing stock down to affordable levels needs to be enabled through promoting the construction of new, higher end housing. Households moving into these new houses frees up their current house. This effect is often raised in relation to retirement villages, for example, with filtering driven largely by upper-income people who leave their aging homes for new units. But if housing construction is restricted, there won't be enough new homes constructed and some of those upper-income people will have to settle for older houses that might otherwise be occupied by people with less money.

Studies of filtering are limited. One American study[20] noted three important points:

- owner-occupied homes filter much more slowly than rentals: just 0.5 percent per year, compared to as much as 2.5 percent for rentals (though homes that begin as owner-occupied are often converted to renter-occupied as they age.)
- filtering does not happen evenly over time: it's much more dramatic over the first 40 years or so of a home's life.
- once a home hits the half-century mark, it's as likely to "filter up" (become occupied by wealthier people) as filter down.

Approximately 54 per cent of housing stock in the Waikato Region was built after 1980[21] and is unlikely to be subject to downward filtering. See Figure 22. The balance of the housing stock was built in the 1950s to 80s, suggesting a relatively large pool of second or third hand houses should be available.

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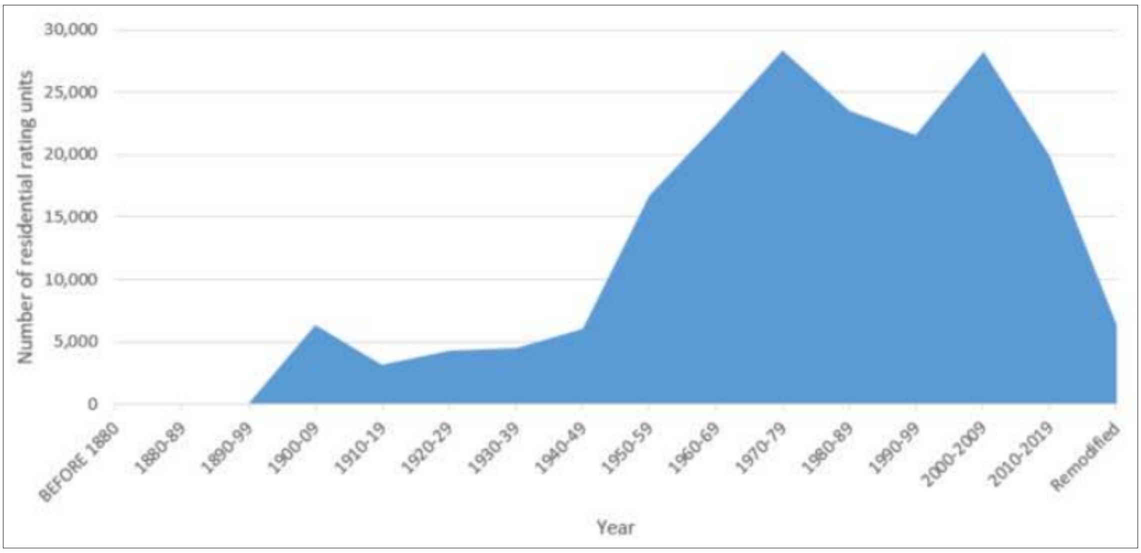
[19] Housing affordability: is new local supply the key? LSE Research Online URL for this paper: http://eprints.lse.ac.uk/100016/ Version: Accepted Version

[20] As reported by City Observatory: https://cityobservatory.org/what-filtering-can-and-cant-do/

[21] Waikato Region Housing Initiative – 2018 Housing Stocktake

Figure 22: Age of Hamilton housing stock



Source: Waikato Region Housing Initiative – 2018 Housing Stocktake

An important question is whether filtering is sufficient to result in an affordable housing stock. Filtering does help. However, to the extent that housing is built relative to population growth and demand, filtering will be slower and take longer because new units are purchased by new residents, not just existing residents. Equally, there is a 'floor' to how low filtering can go as a response. Actions like the Healthy Homes programme seek to ensure minimum standards.

7.3 Will Inclusionary Zoning solve the housing crises?

Expecting an RMA-based affordable housing policy to have large impacts on the price of market housing is unrealistic. Inclusionary zoning will not solve the current housing crises. But it will help to provide more housing choices and more sustainable neighbourhoods by enabling a range of households to live in the same area. It is very much a long term strategy; it is not a 'quick fix'.

The number of affordable units produced is very dependent upon wider market conditions. Areas experiencing low levels of market rate development will likely not generate significant results from an IZ policy. Conversely, the Urban Land Institute note that in very strong development environments (substantial amounts of new construction and rehabilitation, steady rent and price growth, low vacancy rates) IZ policies can generate affordable housing units without subsidy or other development incentive from the local jurisdiction. In some moderately strong development environments, IZ policies can achieve their goals as well, provided the city or county contributes the optimal levels and combinations of development incentives.

In this context, IZ is as much a growth management tool as it is a housing policy tool. It is not intended to supplant either more supply of market rate housing, or direct provision of social housing by the government. Rather its focus is on using urban land, at a rate and in a way that supports community wellbeing. Having affordable housing options incorporated into a range of developments across a city or district (rather than concentrated in one or two areas) helps achieve outcomes relating to land use and transport integration, lessens pressure for urban expansion, and supports compact development and well-functioning neighbourhoods.

7.4 Will IZ create more costs than benefits generated?

Arguments against IZ generally raise two points:

- an affordable housing requirement is likely to raise house prices as developers seek to off-set costs by increasing the price of market rate housing; and
- higher costs and potential for greater risks may see some housing developments put on hold or not proceed at all. Housing supply may slow.

At a conceptual level, faced with increased costs arising from an affordability requirement, developers may:

- hold off undertaking the development
- absorb costs, or otherwise try to reduce other costs
- compensate by increasing the costs of market rate development
- reduce their offers for development sites.

Table 9 sets out one simple example of the often posited effect on other house prices, as the affordability requirement increases in terms of the number of units and their discount relative to market rates.

Table 9: Impact of affordable housing requirement

Affordability requirement	5%	10%	15%
Number of affordable units in a 20 unit development	1	2	3
Market rate units sale price	$800,000	$800,000	$800,000
Affordable units sale price	$500,000	$500,000	$500,000
Total affordability 'discount' required (i.e. reduced revenue)	$300,000	$600,000	$900,000
Implied increase in market rate units to off set	$15,789	$33,333	$52,941
% increase of market rate units	2.0%	4.2%	6.6%

If house prices cannot be increased to compensate, then the developer must find some other way of absorbing a reduction in revenue.

A range of studies have attempted to quantify these effects. For example, an often quoted 2009[22] study of IZ policies in America suggests that:

> *The analysis found that inclusionary zoning policies had measurable effects on housing markets in jurisdictions that adopt them; specifically, the price of single-family houses increases and the size of single-family houses decreases. The analysis also found that, although the cities with such programs did not experience a significant reduction in the rate of single-family housing starts, they did experience a marginally significant increase in multifamily housing starts. The magnitude of this shift varied with the stringency of the inclusionary requirements. Finally, the analysis found that the size of market-rate houses in cities that adopted inclusionary zoning increased more slowly than in cities without such programs. The results are fully consistent with economic theory and demonstrate that inclusionary zoning policies do not come without costs.*

Other studies have suggested that the link between IZ and house prices is more tenuous. Much depends upon the extent of ‘discount’ (affordability) required as well as the quantum of units to be provided. Put simply, modest requirements have much less of an impact than more onerous requirements. A review of the research from across the ideological spectrum concluded that *“the most highly regarded empirical evidence suggests that inclusionary housing programs can produce affordable housing and do not lead to significant declines in overall housing production or to increases in market-rate prices.”*[23]

An important point is that since the local market for existing homes sets the price of new housing, developers are constrained from simply increasing the price of units developed for the market. The most likely route for costs to be ‘off-set’ is reduced land values. The ‘cost’ of affordable housing requirements is passed back to the seller of the development site with the developer retaining their full margin for profit and risk.

If IZ policies remain in place over a sustained period of time, land prices will likely adjust and the IZ requirements may be absorbed as a “cost of doing business” in the jurisdiction. As noted by Auckland research on IZ[24]:

> *Inclusionary zoning may also have an indirect impact on block land prices. In the market’s response to such a policy it is reasonable to assume that landowners may be willing to accept lower purchase offers due to the IZ requirements imposed on block land, all other factors held constant. In addition many interviewees suggested that the end result of inclusionary zoning would be an increase in the sales prices of the market-priced homes in order to compensate for the losses associated with the development’s affordable homes.*

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22 Bento, Antonio & Lowe, Scott & Knaap, Gerrit-Jan & Chakraborty, Arnab. (2009). Housing Market Effects of Inclusionary Zoning.

23 Lisa Sturtevant, “Separating Fact from Fiction to Design Effective Inclusionary Housing Programs,” Center for Housing Policy brief, National Housing Conference, Washington, DC, 2016, 1.

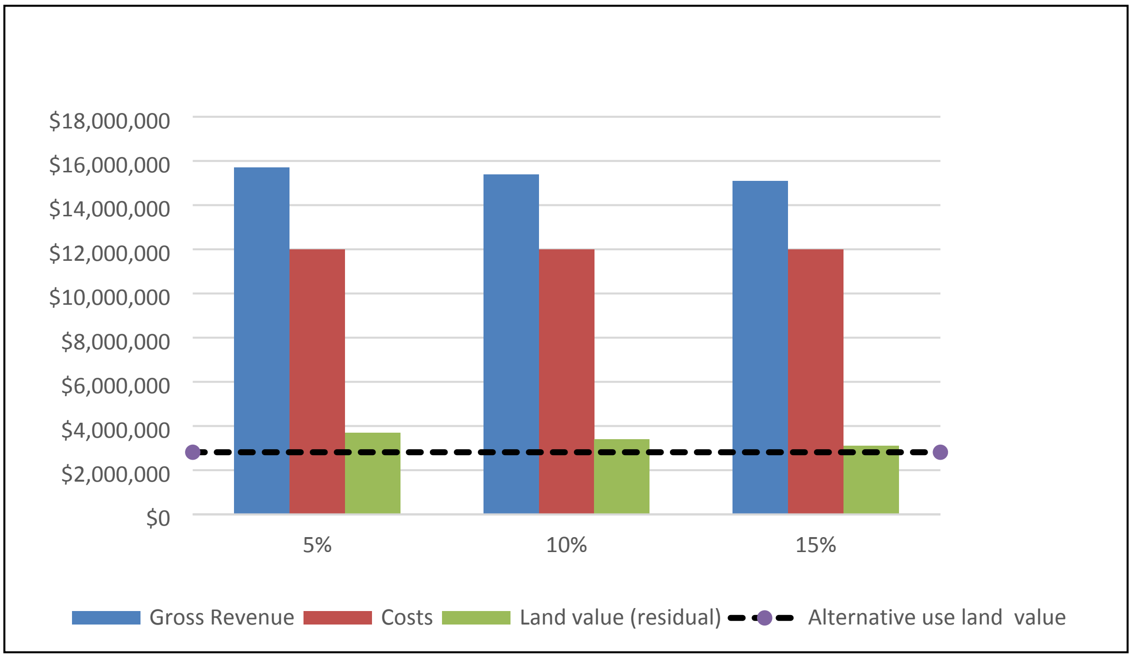
24 Inclusionary Zoning and Greenfield Residential Development: A Feasibility Study. Report prepared for Auckland Council June 2013. Professor Laurence Murphy, Dr Michael Rehm University of Auckland

This assumes, however, that inclusionary zoning requirements would not be "passed back" into the land price. It also assumes that market prices for new houses are largely set by developers. In fact, new house prices are strongly influenced by the secondary market consisting of existing homes for sale within a given submarket. Sales transactions of new houses tend to represent a small proportion (typically less than 25 per cent) of overall home sales across Auckland.

Having said that an affordable housing requirement will be reflected in land values, there is nevertheless a floor to how low land prices will go (or at least how much of future increases in value may get accounted for by new requirements). For example, if residential greenfield land values fall below land values associated with alternative land use activities such as industry or rural-residential, then landowners may not sell to residential developers.

Figure 23 provides a hypothetical case. Land value is derived from expected revenues less costs. As revenues drop due to larger affordability requirements, but costs and profit/risk allowances remain the same, then residual land value decreases (this is the amount a developer has to buy land). In the 5% option, residual land value (green bar) is above assumed alternative use value (dashed line), but a 15% requirement sees land values equal alternative uses.

Figure 23: Residual land value and alternative land use value



Where developer bids for land are equal to or are lower than alternative land use values, then it is possible that housing supply will slow.

7.5 What about alternative methods?

While the need for some sort of public intervention to support the provision of affordable housing is often accepted, there is always calls for that intervention to involve non RMA methods, such as financial support, rather than regulatory actions. For example, Councils could facilitate affordable housing through rates rebates or discounting development contributions.

These types of methods are possible under the Local Government Act but require specific policy support in Long Term Plans and the like. Such policy approaches are potentially less effective than RMA-based methods. In particular:

- The methods lie outside the RMA planning process and require funds to be sourced from development to then invest in affordable housing. This lessens effectiveness compared to affordable housing requirements which become an input into developments.
- The methods lack that stability afforded by the 10 year life of district plans, being more subject to short term political cycles.
- Reductions in funding streams (such as reduced or waived development contributions) need to be compensated for by increases in other funding if Councils are to maintain investment in capital and operating expenditure on needed infrastructure to support housing supply.

Key Points

Continually increasing housing supply options is important but is unlikely to be sufficient by itself to generate a supply of affordable housing. In high growth areas with added pressures from investors, expansion of housing stock often lags demand.

Affordable houses are usually 'second hand' (previously owned) homes. Encouraging the 'filtering' of houses by enabling supply of new, up market housing – allowing home owners to move up the housing ladder, releasing lower priced housing – is a valid method of increasing the stock of affordable housing. However, the evidence is that the contribution of this dynamic is small in comparison to need.

Options to increase the supply of affordable homes include financing the Community Housing Sector, but councils are constrained in what financial aid they can provide.

Inclusionary zoning can be an efficient and effective method of seeing affordable housing provided in most new developments. However, care needs to be taken in the design of any affordability scheme to reduce the potential for adverse consequences to housing production. Overtime, affordable housing requirements are likely to be absorbed into land values. The 'cost' of affordable housing requirements is passed back to the seller of the development site, with the developer retaining their full margin for profit and risk.

8. Dimensions of Inclusionary Zoning

This section examines the various dimensions of inclusionary zoning.

Inclusionary zoning requires that a range of factors are considered. Schemes vary substantially around features that include:

- whether the policy is mandatory or voluntary;
- the contribution (set aside) amount - i.e. required share of affordable housing; often between 10 and 20 percent;
- definition of affordability and eligibility (such as by household income);
- term limits and retention;
- whether the scheme applies to the entire jurisdiction or to specific housing types or locations,
- opt-outs (in lieu payments or ability to provide units off-site); and
- incentives.

Community Housing Aotearoa's discussion document on inclusionary zoning set out the following 'policy' choices (see Table 10).

Table 10: Policy Choices

Table 2: Design choices for affordable housing planning requirements

Coverage	*Delivery form*	*Definition of affordable housing*	*Percentage set aside*	*Retention mechanism*	*Cost offsets / value uplift / incentives*
Mandatory or voluntary City-wide or select zones Minimum development size (eg 10 dwellings)	Home (of different sizes, and for rent, shared equity or ownership) Land Financial contribution On-site or off site allowed	Relative to market prices, eg: • Lower quartile • Median price Relative to median incomes, eg affordable for households with 80-120% of median income to buy Vested with public or not-for-profit organisations and reserved as subsidised rentals or shared ownership homes for low-middle income households	5%? 15%? Of total value or just value uplift? Determined by: • Overall target or • Share of market renter households or • Development feasibility Site-specific depending on existing tenures and objectives	Vest with not-for-profit to: • Retain home for rent or • Recycle share of capital gain Covenant No retention mechanism	Planning incentives eg rezoning, density bonuses, reduced requirements Faster consenting Delayed development contributions, targeted rates, grants No cost offsets

Source: Community Housing Aotearoa

8.1 Purpose

Identifying the objective of any policy is an important starting point. For example, is the aim to meet the needs of certain income groups, geographic areas, or specific types of households (such as key workers)?

It is common for cities to target IZ policies to a particular need that is not met by the market or other forms of publicly supported housing.

Income targets aimed at households between 80 and 120 percent of the local median income are common, on the basis that these households may not qualify for other forms of public support (such as access to social housing and / or be eligible for the accommodation supplement). These 'middle income' households may also be formed by workers who are important to the functioning of the community but are in professions with national pay scales (like teachers, police and nurses). Households in these bands are also often described as being in the intermediate housing market – they have sufficient income to pay for rent, but struggle to accumulate a deposit. Affordable housing products aimed at this group will be below market rates, but not substantially so. The small discount (in comparison to fully subsidised housing) helps to moderate impacts on development feasibility.

Many cities face more acute housing needs at lower incomes, and some choose to design their programs to generate at least some units affordable to very low-income and extremely low-income residents (earning less than 50 or 30 percent of median income). Cities that want to create units for lower-income residents often allow developers to provide fewer units with greater affordability.

New Zealand housing policy has a particular emphasis on 'first home buyers', through for example First Home Loans, First Home Grants, and Kiwisaver withdrawals. A local example of eligibility criteria pitched at first home buyers is Hobsonville Point in Auckland (a Kainga Ora-led redevelopment). A component of the development is the Axis Series of homes. These homes are designed for people who earn an average Auckland wage but because of the housing market in the city, are unable to afford a home in the area. Axis series homes are in the $550,000 to $650,000 price range. Axis Series buyers must meet the following criteria:

- be New Zealand permanent residents or citizens;
- must be a first home buyer, or in the same financial position as a first home buyer as deemed by Housing New Zealand;
- cannot put the home in the name of a Family Trust, company or nominee;
- have proof of finance to complete a purchase of an Axis Series home; and
- must have a gross household income no higher than $85,000 per annum for a single purchaser and no more than $130,000 per annum, where there is more than one purchaser.

8.2 Mandatory versus voluntary

There are two main approaches to building affordable housing through the planning process.

The first is the mandatory model which requires that a number of affordable homes are included in developments as a condition of resource consent. The number of affordable homes developers are required to provide is determined by either negotiated agreements made between a developer and planning authority during the planning assessment process, or fixed requirements specified as a proportion of housing or development value.

The second approach is the voluntary incentive model, where new affordable housing is encouraged by reducing costs for developers. Types of incentives include:

- modifying activity status for specific types of housing, for example encouraging low cost housing like boarding houses, student accommodation, and retirement villages in designated areas;
- bonus systems which relax specified development controls, typically height, density, setback or parking controls, in exchange for constructing dedicated affordable housing;
- planning process incentives where projects that include affordable housing attract special treatment in the planning process such as fast track approvals, or a reduction, exemption, or refund of application fees, infrastructure charges or rates.

In general, fixed, mandatory requirements provide more affordable units than negotiated, bonus-based approaches. Research by the Australian Housing and Urban Research Institute[25] looked at outcomes of voluntary schemes in New South Wales and mandatory schemes in South Australia. The report notes that:

> *A suite of voluntary provisions and incentives have been introduced in NSW since 2005, the most notable of which is a density bonus for infill affordable rental housing (introduced in 2009). Despite much greater population growth and housing affordability pressures than in South Australia, voluntary planning incentives have delivered a small proportion of affordable homes (between 0.5–1% of Sydney's housing supply in 2009–17, approximately 1,300).*

In contrast, the South Australian Government's inclusionary planning requirement, introduced in 2005, requires that 15 per cent of all housing in significant residential developments (including urban renewal and greenfield contexts) should be affordable to low or moderate-income earners. Since inception to 2016, 2009 affordable homes have been built and a further 3,476 homes committed under the 15 per cent affordable housing requirement.

8.3 Targeted or broad brush?

Some inclusionary housing programs apply the same requirements uniformly across an entire district, some programmes apply requirements only to targeted neighbourhoods (new or existing) expected to experience significant growth, and others vary requirements by neighbourhood.

Geographically targeted programs may be more complex to design and administer. They may also see development pressures switch away from the area targeted to areas where the requirement is not in place. This will mean fewer affordable housing lots or units. For example, if only Hamilton City introduced a requirement in its greenfields areas, development pressures may shift to Te Awamutu or Cambridge. However, broad brush approaches may have particular adverse effects on certain types of development. For example, brownfields redevelopment that is beneficial for

[25] https://www.ahuri.edu.au/__data/assets/pdf_file/0021/17274/PES-006-Planning-mechanisms-to-deliver-affordable-homes.pdf

compact city strategies may be more affected than greenfields, in terms of impact on viability of development.

One way to address varying circumstances is to roll out an affordable housing requirement as part of new zonings and upzonings. In South Australia, a 15 per cent target has been progressively introduced through local plan amendments and on major development sites when areas are rezoned for residential or higher density homes. State policy and local planning laws provide a framework for both a mandatory inclusionary zoning model to secure affordable housing in major new development and renewal contexts, as well as planning incentives and concessions to encourage affordable homes in contexts where it is not compulsory.

As well as geographic issues, it may be appropriate to exempt certain forms of residential developments, for example:

- smaller apartments and apartments in central areas due to these apartments often being smaller and more affordable;
- rural-residential development is a form of housing development, but not one associated with affordable housing; and
- retirement villages, lodged and boarding houses.

8.4 Requirement (set aside)

The set aside is the number or percentage of lots or units that need to be affordable.

Under some IZ programmes, all eligible residential developments above a trigger level are required to provide the same fixed percentage of the total units as affordable units. In other cases, the requirement is determined on a case-by-case basis.

US evidence is that 'fixed 'contributions ranging from 10% up to 20% of dwellings being affordable have been proven to be acceptable in many jurisdictions[26]. In the UK, in major metropolitan centres, affordable housing requirements can extend to 30% to 50% of dwelling units, but each case is negotiated.

Setting the contribution rate involves consideration of the objective of the policy, modelling of the financial feasibility of different types of developments, consideration of demand for affordable dwellings as well as issues of practicality.

In principle, any affordable housing requirement should be based on a prescribed and fixed "below-market" price or rent. A "below-market" price or rent is one that is likely to be substantially below the lowest market price or rent for the equivalent new unit.

For example, Quotable Value NZ data suggests that median house prices for the Waikato Region are in the order of $800,000. Typically, inclusionary zoning aims to provide housing that is affordable to households on 80% to 120% of area median household incomes. These units have to be sold or rented to qualifying households; that is households that meet income and asset criteria.

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[26] Inclusionary Housing Program Design Worksheet. Sourced from https://inclusionaryhousing.org/

In the case of Hamilton City with an estimated median household income of around $90,000 an affordable home may need to be sold at between $500,000 to $550,000 to be affordable to a household on 100% of the median income. At this price, assuming 20% deposit, then approximately 35% of the households gross income is required to cover mortgage repayments. This sale value represents a considerable discount to median prices. If affordability is tightly defined (i.e. 80% of median incomes) then the 'subsidy' involved is greater than if affordability is defined as being closer to median incomes.

It is important to understand that in most IZ schemes, the affordable unit is still sold by a developer, albeit at a below market rate. The house may be sold to a Community Housing Provider or brought by a household that meets income criteria.

Based on the 'income' objective, feasibility testing is then needed to determine what quantum of housing at the set affordable price is appropriate. That is, at what point does a requirement likely make development infeasible, given a range of assumptions about land values, construction costs and sale values. Feasibility testing follows an established methodology which considers the residual value of land, once all costs and revenues have been taken into account. Sensitivity testing of inputs is important.

Below is an extract from a 2013 report on IZ and Greenfields development in Auckland. Two different case study areas were selected – Upper Harbour (a high value area) and Papakura (an area of more modest values). Three different developer margins were tested. Results varied between the different areas and expected developer margins.

Figure 24: Example feasibility testing

Figure 7: Development Viability by IZ Policy Requirements

<table>
<tr><th></th><th>Business</th><th colspan="11">Inclusionary Zoning Policy Requirement (% Affordable)</th></tr>
<tr><th>Submarket</th><th>Model</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%</th><th>45%</th><th>50%</th></tr>
<tr><td>Papakura</td><td>Sections</td><td colspan="11">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="4">Viable</td><td colspan="7">Not Viable</td></tr>
<tr><td>Upper Harbour</td><td>Sections</td><td colspan="8">Viable</td><td colspan="3">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="5">Viable</td><td colspan="6">Not Viable</td></tr>
</table>

Development Margin = 20%

<table>
<tr><th></th><th>Business</th><th colspan="11">Inclusionary Zoning Policy Requirement (% Affordable)</th></tr>
<tr><th>Submarket</th><th>Model</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%</th><th>45%</th><th>50%</th></tr>
<tr><td>Papakura</td><td>Sections</td><td colspan="11">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="11">Not Viable</td></tr>
<tr><td>Upper Harbour</td><td>Sections</td><td colspan="6">Viable</td><td colspan="5">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="4">Viable</td><td colspan="7">Not Viable</td></tr>
</table>

Development Margin = 25%

<table>
<tr><th></th><th>Business</th><th colspan="11">Inclusionary Zoning Policy Requirement (% Affordable)</th></tr>
<tr><th>Submarket</th><th>Model</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%</th><th>45%</th><th>50%</th></tr>
<tr><td>Papakura</td><td>Sections</td><td colspan="11">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="11">Not Viable</td></tr>
<tr><td>Upper Harbour</td><td>Sections</td><td colspan="4">Viable</td><td colspan="7">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td>V</td><td colspan="10">Not Viable</td></tr>
</table>

Development Margin = 30%

Source: Auckland Council

The alternative to a 'discounted' affordable housing product being sold, is for land and/or units being transferred to the Council at no cost. This approach has been used in Queenstown. Setting a contribution on a straight transfer of land or units needs to recognise that this form of requirement is potentially much larger than the discounted sale approach, and as such generates fewer affordable housing units. For example, transfer of a $350,000 serviced section to Council at no cost is equal to the sale of three lots at an affordable price of (roughly) $230,000 each.

8.5 Land or units versus fees in lieu

Traditional inclusionary zoning programs are designed around the assumption that units will be provided on-site, based on a set rate (e.g. 10%). It's a challenge to design requirements that work equally well for every potential development scenario, so programmes can offer developers alternative ways to satisfy the affordable housing requirements. The most common alternative is to pay a fee in lieu of on-site production. Other alternatives include building units off-site, or buying existing housing stock and then on selling these at a reduced price.

A key factor that often shapes those decisions is whether a Council wants to encourage on-site performance or collect the revenue to leverage other sources of funding to build affordable units offsite. For example, in Queenstown, the Council is keen to support the work of the Community Housing Trust. It is considering an affordable housing requirement that is built on a financial contribution that will be passed to the Trust so that the Trust can finance the construction of affordable units, using the revenue generated as well as other sources of funding.

In-lieu fees are likely to be the most effective approach for seeking contributions from small scale infill type developments. Site-by-site redevelopment of existing residential sites is a common occurrence in Hamilton, and likely to be more significant in Waipā and Waikato as these areas develop. The small-scale of such development (often where one house may be removed and replaced with 3 to 6 units) means that such development is likely to sit below relevant thresholds (such as a 10% requirement only taking effect with developments of 10 units or more). In this case, the only option is a monetary contribution.

In-lieu fees may be set by the plan, or require development specific calculation. If in-lieu fees are far below the cost of actual construction and/or are only sporadically received, then this is likely to result in low numbers of affordable housing units being produced. Equally, setting a 'generous' fee may see revenues collected exceed the capacity of affordable housing providers to deliver product (given that they may need to buy land, undertake development, gain consent etc). If revenues are not expended, then questions may be raised as to the efficacy of the financial contribution.

Lincoln Land Institute[27] note that under the right circumstances, off-site production with in-lieu fees can result in more affordable homes than on-site production, but increased production is not automatic. Effective use of fees relies on the presence of a number of key resources, which are not necessarily available in every community. These include the availability of other locally controlled financing sources to leverage inclusionary housing funds, the capacity of public agency staff, the availability of local non-profit housing providers with affordable housing development experience, and the availability of land for development of affordable housing. Even when all these elements

[27] Inclusionary Housing. Creating and Maintaining Equitable Communities

are present, successful off-site strategies require careful attention to where units are located if a program aims to achieve some level of community integration.

8.6 Incentives

Incentives are often called for as a way to help ‘off-set’ the costs of the affordable housing requirement on development. Incentives may be in the form of density bonuses, faster processes or waiver of other fees like development contributions.

For example, the 2008 Affordable Housing: Enabling Territorial Authorities Act listed the following in Section 10:

> *An affordable housing policy must state what the territorial authority may do to help a person to facilitate the provision of affordable housing, if the person is doing a development to which the policy applies.*
>
> *Without limiting what the policy may state, things that the policy may state that the territorial authority may do include—*
>
> *excusing the person from paying some or all of the person’s development contribution under its policy on development contributions:*
>
> *giving the person a density bonus:*
>
> *giving the person financial assistance under an applicable funding or financial policy:*
>
> *giving the person rates remission under its rates remission policy:*
>
> *giving the person rates postponement under its rates postponement policy.*

While on the surface bonuses provide a helpful means of enabling affordable housing, incentives generally come at a cost to some party. If inclusionary housing requirements are modest enough to be absorbed by land prices, then any incentive moves the cost from landowners back onto the public. Incentives such as waivers of development contributions reduce revenues available to Councils to build and maintain necessary infrastructure. Even planning incentives such as density bonuses, which appear free, result in increased pressure on infrastructure and other private and public costs.

When communities base inclusionary requirements on detailed feasibility studies, it becomes clear if incentives are needed to play a role in implementing an inclusionary housing program. If the goal of an inclusionary requirement is to enable developers to earn “normal” profits while capturing some share of “excess profits” for public benefit, any incentive a city can offer to make development more profitable enables the imposition of an inclusionary requirement higher than would otherwise be feasible. However, communities have to carefully weigh the costs and benefits of each incentive and evaluate them relative to the cost of meeting specific affordable housing requirements.

8.7 Greenfields versus brownfields

Brownfield residential development processes differ from greenfield development in terms of site/development conditions, product types (terraced housing, high rise apartments), as well as the RMA frameworks that apply.

In greenfields developments, development costs and revenues can be reasonably anticipated by an experienced developer. Residual land valuation techniques can be applied to determine development feasibility. Affordability requirements can be factored into these assessments and adjustments made to densities and dwelling designs, along with asking prices for development land. The shift from rural to urban zoning often entails a substantial lift in land values. Even where a residential zoning is in place, raw block land values are significantly less than serviced lots, in part recognising the subdivider's investment in civil works, but also the connections to publicly funded network infrastructure (such as arterial roads and waste water trunk services). Developments can be staged to match market demand.

Brownfield residential development poses a different set of development competencies compared to greenfield development. In contrast to the standalone single house that dominates greenfield developments in New Zealand, brownfield developments consist of terraced townhouses and medium to high-rise apartments. Funding and financing of these types of developments is different and involves more developer risks, with less ability to stage developments. The value of development sites is set by the wider market (e.g. home buyers wishing to purchase a house as well as developers looking for a development site). There is usually less ability to 'compensate' for an affordability requirement through adding additional units to a development as height and density controls tend to be more ridged than in large greenfields developments. As a result, key metrics are the impact of any requirement on profit and risk profiles.

In short, viability risks can make affordable housing development on brownfield sites even more financially and economically challenging. Yet brownfields development often involves the loss of affordable houses as older housing stock is redeveloped for new, more expensive houses.

The complexities of brownfields developments can often lead to a voluntary, bonus or incentive-based approach to affordable housing. But as discussed above, bonus based approaches do not sit well with the RMA. Equally, many schemes in the US involve tax breaks or similar.

Other approaches to brownfields development can be:

- exclusion of one or two lot/unit developments;
- reduced rates of any requirement (set aside) compared to greenfields; and
- introduction of affordable housing requirements may be tied to rezoning proposals (from low rise to high rise, for example).

The City of Sydney operates an affordable housing policy that applies to defined brownfields areas in the city, including Green Square and Southern Employment lands[28]. These are areas that are identified for urban redevelopment. The City's policy requires the following affordable housing contribution:

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[28] City of Sydney Affordable Housing Program Adopted 24 August 2020.

• 1 per cent of the total floor area that is to be used for non-residential uses, and

• 3 per cent of the total floor area that is to be used for residential uses.

The contribution may be satisfied by dedication of dwellings or by making an equivalent monetary contribution to the Council.

Four elements are seen to be critical to the success of this policy: it is easy to understand, mandatory, has broad coverage and involves low transaction costs.

8.8 Retention

If inclusionary programs are to create and preserve mixed-income communities, long-term restrictions on resale of affordable units are vital for a program to have a lasting benefit. If affordable homes lapse out of a policy and return to market values after a few decades, the program will not increase the stock of affordable housing. Maintaining affordability for future generations and avoiding windfall benefits for first occupiers are important factors.

As an example, the Axis Series of homes at Hobsonville Point have a minimum two year retention requirement. This is very short.

In the US-based IZ programs, inclusionary ownership units are controlled almost universally through restrictive covenants registered on the title of the property. The covenants bind the initial as well as all subsequent owners to the various affordability restrictions over a prescribed period of control.

Some early schemes had a ‘control period’ of 30 years. After this time period had expired, then the retention mechanism was lifted. This results in the loss of the investment in affordable housing. More recently, retention in perpetuity is common, as otherwise the stock of affordable dwellings can decrease if the additions into the affordability housing ‘pool’ are fewer than the number of affordable units leaving the pool as their control period expires.

Through the covenants, the initial price reduction is locked in and passed on to the subsequent buyers, allowing for some suitable inflationary adjustment. This means that the owners of the unit do face limited capital gains.

In some places, this primary legal instrument is also supplemented by an “option to purchase”. This option allows the Council (or perhaps Housing Trust) to buy the affordable units whenever offered for resale. They typically exercise this right, not by buying the unit, but by assigning the option either to a non-profit agency or to an eligible buyer on their waiting list.

Some US commentaries on deed restrictions note that unless the retention mechanisms are supported by State legislation, then there may be legal challenges that see the restrictions on title deeds at risk of judicial invalidation.

Retention mechanisms based on some form of covenant on a title would be a new feature in the New Zealand housing market and may see some resistance from banks (for example when lending), or future buyers unsure as to the implications of the mechanism. For example, the retention mechanism narrows the pool of potential buyers and limits capital appreciation. Retention mechanisms will require the Council to monitor sales and purchase agreements.

The 2008 Affordable Housing Act provided for methods of retention as follows:

- the person doing the development must sell or rent the housing to a person who meets the criteria specified in the provisions of the policy that reflect section 13
- the person to whom the housing is allocated must offer it first to the territorial authority or a council-controlled organisation, a council organisation, or a trust if the person decides to sell it
- the territorial authority or a council-controlled organisation, a council organisation, or a trust that buys the housing must sell it to a person who meets the criteria specified in the provisions of the policy that reflect section 13
- the territorial authority or a council-controlled organisation, a council organisation, or a trust must own the housing subject to an occupation right agreement with the person to whom the housing is allocated
- the territorial authority or a council-controlled organisation, a council organisation, or a trust must own the housing jointly with the person to whom the housing is allocated.

Transfer of the lot, unit or cash to a community housing provider (via a Council) is likely to be a preferred method for some Councils. This may include a land trust model, where the dwelling is owned by the household, but the land held in a trust. Such third party arrangements may reduce Council's monitoring responsibilities but may give rise to questions over the financial stability of such Trusts. There would need to be some sort of oversight of Community Housing Providers.

In Queenstown Lakes District, transfer of land to the Community Housing Trust does involve on-going retention due to the term of the Relationship Agreement that the Trust has with Council. This agreement effectively means that the Council stands behind the Trust, with the Trust's rights and responsibilities falling back to the Council, should the Trust encounter financial difficulties.

The City of Sydney policy requires that the contribution may be satisfied by dedication of dwellings free of cost to the Council or by making an equivalent monetary contribution. Ownership of the units and funds collected may transfer to an eligible Community Housing Provider, who in turn must meet certain criteria relating to retention of the units provided.

8.9 Monitoring

Affordable housing requirements require implementation through consent processes and monitoring of resulting conditions. The outcomes of an inclusionary housing policy are strongly influenced by the capacity and skills of relevant Council staff. Staff must have the specialised skills to engage successfully with often complex housing development projects. Once affordable lots or units are provided, monitoring of rental and ownership units require dedicated staffing to ensure that units remain affordable and that the program is meeting its stated goals. Councils need to budget for this ongoing expense.

Key Points

A range of matters need to be addressed when developing an affordable housing policy. Choices cover:

- Purpose – what is the objective of the requirement (e.g. help with growth management, create more stable neighbourhoods)?

- Definition of affordability – what households are targeted (e.g. those on 80 to 120% of area median incomes)?
- Mandatory versus voluntary – set requirement or a negotiated outcome (e.g. all residential development of more than 10 units)?
- Requirement or 'set aside' – percentage of development to be affordable (e.g. 10% of lots or houses)?
- Incentives – are there any bonuses, such as faster processing, extra height or density?
- Retention – what mechanisms are used to protect long term, the benefit created (e.g. ownership of units by a Community Housing Provider, and/or some form of control on resale such as deed restrictions)?
- Monitoring – who will administer the scheme, particularly the retention requirements?

Four elements seen to be critical to the success of any policy are: the policy is easy to understand, is mandatory, has broad coverage and involves low transaction costs.

9. RMA and Inclusionary Zoning

Any affordable housing requirement incorporated into a district plan will need to fit within the terms of the RMA.

Commonly raised issues with the RMA and affordable housing cover:

- is an affordable housing requirement within the terms of section 31 (functions of councils)?
- will a requirement meet the tests of section 72 and 74, in particular reference to Part 2 in 74 (1) (b) and the requirement to give effect to national policy?
- section 76 requirements around rules, including 76 (3)'s requirement to have regard to the actual or potential effect on the environment of activities including, in particular, any adverse effect.
- will it meet the tests of section 32?

An NZ-based affordable housing scheme has not yet been fully tested through the RMA process. Queenstown High Court cases have addressed matters of legality – is an affordable housing requirement in scope of the RMA – but not a substantive assessment of any requirement. Experience with Special Housing Areas has seen affordability requirements applied outside of the RMA. Furthermore, schemes that apply in other countries generally operate under specific national or state law that mandates such schemes, and/or where planning legislation has a stronger foundation on social and community well being, not just environmental management.

9.1 Council's functions

Council's function under section 31 of the RMA are wide ranging. They include integrated management, as well as policies and methods to ensure that there is sufficient development capacity in respect of housing and business land to meet the expected demands of the district (Section 31(aa)).

The relevance of section 31(1)(aa) to affordable housing has not been tested. While the clause refers to capacity for housing, rather than actual delivery of housing, there is an argument that to achieve integrated management of urban land and resources, targeted methods to ensure delivery of appropriately priced housing are needed to make effective and efficient use of the capacity that is provided.

9.2 National direction

Reference to Part 2 of the Act in section 74 brings into play section 5 and its reference to the use, development, and protection of natural and physical resources in a way, or at a rate, which enables people and communities to provide for their social, economic, and cultural well-being and for their health and safety. Affordable housing requirements are a method that influences how urban land is utilised.

Under section 74, district plans must give effect to National Policy Statements. Objective 1 of the NPS-UD states that New Zealand is to have well-functioning urban environments that enable all people and communities to provide for their social, economic, and cultural wellbeing, and for their health and safety, now and into the future.

The NPS-UD refers in Policy 1 to well-functioning urban environments that, as a minimum, have or enable a variety of homes that meet the needs, in terms of type, price, and location, of different households.

Policy 1 directly refers to a variety of homes in terms of prices, rather than just capacity. Furthermore, Clause 3.23 of the NPS-UD requires analysis of how the relevant local authority's planning decisions and provision of infrastructure affects the affordability and competitiveness of the local housing market. The analysis must include an assessment of how well the current and likely future demands for housing by Māori and different groups in the community (such as older people, renters, homeowners, low-income households, visitors, and seasonal workers) are met, including the demand for different types and forms of housing (such as for lower-cost housing, papakāinga, and seasonal worker or student accommodation).

These policies do not expand upon what actions should be taken where there is clear evidence of unaffordability. Clause 3.11 of the NPS-UD does reference that when making plans, or when changing plans in ways that affect the development of urban environments, council's must use evidence about land and development markets to assess the impact of different regulatory and non-regulatory options for urban development and their contribution to achieving well-functioning urban environments.

Objective 2 of the NPS-UD requires that planning decisions improve housing affordability by supporting competitive land and development markets. This objective does not constrain affordable housing policies to those solely focused on competitive markets. However, if there was evidence that competition was being unduly limited, then this objective may be used to block any affordable housing requirement being imposed until barriers to competition had been reduced.

9.3 Effects management

Section 76's reference to rules needing to be related to adverse effects of development is often raised as a barrier to affordable housing requirements, in that there are no adverse effects on housing affordability from the development of new housing. It is contended that subdividing residential land or building a house adds to supply and is therefore a positive effect, not an adverse effect. This is a narrow interpretation. A wider view is that by managing the environmental effects of residential development (effects on landscapes, soils, amenity, waterways etc), there is inevitably a constraint on development options that is reflected in land values. Moreover, residential zoning carries with it substantial public investment in network infrastructure (arterial roads, wastewater, water) to service the growth, which is also incorporated into land values. In turn, the resulting higher land values can disable certain sectors of the community from accessing affordable housing. This type of argument is strong in places like Queenstown where landscape values are very high and constraints on urban growth very obvious. Waikato has urban expansion options that can avoid significant natural environmental constraints. Nevertheless, there is an argument that making effective use of land (greenfields and brownfields) that is to be developed – that is by including a range of housing types and prices – assists in better managing growth pressures in the long term and makes more effective use of investment in infrastructure.

One option to address the ‘effects’ issue is to link affordable housing to business growth. New businesses coming into the district generate jobs, which in turn attracts workers to shift into the area. This creates demands on the housing resource. This type of approach is called “Linkage Zoning”. Effectively new businesses pay a levy that goes towards affordable housing. As with inclusionary zoning, the justification for linkage zoning is strongest when there are clear environmental constraints to expansion of the housing stock meaning that those households on median incomes are likely to face restricted choices.

9.4 Section 32

Section 32 sets out a range of matters that would need to be addressed in any affordable housing provision. These typically cover:

- potential for other tools like development contributions or targeted rates to raise funds for affordable housing provision;
- cost/benefit analysis of the impacts on the wider economy. Analysis for Queenstown identified labour cost savings from reduced turnover of staff as being a significant benefit of an affordable housing scheme. Costs were identified as a potential rise in the price of market rate housing to off-set the financial costs of the affordable housing. Benefits still outweighed these costs over a 30 year time frame;
- feasibility testing of different forms of development and different requirement levels. Testing in Queenstown and Auckland has highlighted that modest levels of requirement – 5% to10% on greenfields subdivisions see feasibility retained. Brownfields redevelopment is much more sensitive to additional requirements.

Key Points

IZ raises a range of issues associated with whether it is an appropriate tool under the Resource Management Act (RMA) and how any provision may be implemented.

Typical challenges are that affordable housing is not a matter that is within the scope of the RMA (being a social rather than environmental management issue); any requirement does not arise from the management of adverse effects of development; while excessive affordability requirements may slow housing supply and push up the price of market rate housing to compensate.

These criticisms can be addressed through careful design of an affordable housing requirement.

10. Developing an Inclusionary Zoning Policy for FPP

This section of the report outlines the options for an inclusionary zoning approach that would fit the local context.

10.1 Relevant features

Community Housing Aotearoa's discussion document on inclusionary zoning notes that there is some agreement in the literature that in order to be effective, inclusionary zoning requirements should:

- be mandatory across the geography of the housing market, not voluntary or selective
- define affordability with reference to the incomes of target households and informed by evidence about the local housing market
- use feasibility modelling to test the impact on different developments of required affordability percentages required and other features
- allow a range of delivery forms (e.g. land, houses or financial contribution)
- require retention through a range of mechanisms, (such as covenants, retention of rental stock, recycling of capital gain in shared equity arrangements)
- be accompanied by cost off-setting measures such as faster consenting, delayed payment of development contributions, and/or planning concessions
- provide a significant role for the not-for profit sector in designing and managing the affordable homes with a range of tenure options
- be carefully enforced and monitored by the council
- be formalised in legal frameworks (e.g. district plans, legislation) that demonstrate long term commitment.

In considering options to take forward an affordable housing requirement, salient features of the local FPP Waikato context are:

- three Councils with different district plan formats and at different stages of preparation and review
- mix of urban, satellite, township and rural development
- increasing emphasis on infill and redevelopment, but mostly small scale
- substantial demand for greenfields, some of which is likely to be outside Future Proof 2017 growth areas (such as Ohinewai)
- relatively recent housing stock
- variable household income profiles (medians)
- preference for policy to support Lands Trust as the delivery mechanism in Hamilton, possible preference for private sales in Waipā, subject to retention mechanisms.

10.2 Developing an affordable housing policy

The following discusses key choices in developing an inclusionary zoning policy appropriate to the Waikato FPP context.

Dimension	Discussion
Purpose (which needs to be tied back to the RMA)	The purpose (objective) needs to be determined. There is a strong community well-being theme to concerns about affordability in the FPP area. Supporting labour force/economic growth or environmental management seem less relevant rationales in the case of FPP. Having said that, supporting mixed communities will help implement wider growth management outcomes associated with 'balanced growth' across the FPP area, as well as making effective use of land that is released for urban development. This is a matter that will require further discussion and ideally would be an outcome that is identified in relevant strategic plans for the FPP area.
Affordability definition	Target households on 80 to 120% of area median income. This generally relates to the intermediate housing market – households with income sufficient to rent, but not to sustain home ownership. Target is those households most likely to have choices 'disabled' due to operation of land and housing markets. Base 80 to 120% range on Hamilton City median income level, rather than Waipā or Waikato. Hamilton reflects a more urban focus, and has a lower median income.
Mandatory v voluntary	Voluntary schemes generally produce few units or little income compared to mandatory schemes. Voluntary schemes require some form of incentive or bonus (which may be process-driven, such as non-notification, or in the form of additional development), yet bonuses are hard to justify under the RMA. If to be pursued, a mandatory scheme is recommended, but with the ability for remission through development specific assessment (that is, in RMA terms a standard and associated assessment matters when the standard is sought to be modified).
Fixed standard versus negotiation	A 'fixed' standard is more compatible with RMA plans than a discretionary negotiated case-by-case assessment. A fixed standard allows subdividers and developers to incorporate the requirement into feasibility assessments prior to undertaking development. A fixed

	requirement is also more likely to be passed back into land values. Case-by-case assessments involve a degree of uncertainty over impact on feasibility and therefore may deter some development from occurring.
Type of growth	Focus on residential development, including mixed use multi storey i.e. residential above retail/office, but not business or commercial component. While residential development does not create an adverse effect on affordability in and of itself, it is more effective and efficient to target the residential sector rather than business sector. In this way, affordable homes will be located in a range of residential areas (inner city, suburban, greenfields), helping to meet a mixed communities objective. Exclusions will need to be identified. For example, Papakainga housing may be exempt due to the inherent social objective of such housing, as well as multiple land ownership issues. Other examples would be development led by Kainga Ora.
Location of growth (greenfields and/or brownfields)	The focus should be on urban development within indicative urban limits of the Future Proof area, and other unanticipated rezonings of an urban form / density. In these areas, there is an expectation that urban-level subdivision will occur at some point, supported by public investment in infrastructure. As a result of this, land values will recognise the certainty provided by zoning and public investment. Options could involve an initial focus on greenfields growth. This does not mean that greenfields is the best place for affordable housing; rather it is a recognition that greenfields growth often focuses on mid to high end housing, and does not provide sufficient housing choices to match needs. A brownfields requirement could be introduced later. Alternatively, the brownfields component could be applied to areas that are likely to see significant redevelopment.
Size/quantum of requirement	Will need feasibility testing to determine the level of requirement. Modest contribution rates of 10% to15% of lots/units at an affordable price are common in many planning schemes when a mandatory requirement is applied 'across the board' on greenfields developments. These schemes involve sale of lots or houses at an affordable price, i.e.sale at a discount to market rates. If the intention is that the requirement be in the form of transfer of land and / or units at no cost to the council / housing trust, then the rate of requirement will need to be much smaller. For example, a 10 lot subdivision may sell lots at $300,000 each. An affordable housing requirement may require one lot to be sold to an eligible buyer at $200,000, or $100,000 less than market price. If the intention was to transfer land at an equivalent rate of contribution, then the subdivision would need to be at least 30 lots so one lot can be transferred at no cost.

	Alternatively, a monetary contribution equal to 3.3% of the value of the lots would need to be made.
Nature of requirement	Larger developments, e.g. subdivisions, multi-unit developments of more than 20 lots/units – preference for lots/units to be provided on site to ensure some mixing across neighbourhoods, but with option for cash in lieu. Smaller developments – monetary contribution.
Retention	In the first instance, require transfer of any land to Council approved provider (such as the Land Trust) on a first right of refusal basis. Covenants or other restrictions on ownership registered on titles are not a common feature in New Zealand and likely to raise a range of risks from lenders and potential future buyers. Overtime, they are likely to gain acceptance. A pro forma Covenant may need to be prepared to help allay fears as to the scope of such controls.

10.3 Possible options

Taking forward an affordable housing policy could involve a number of routes, from a 'soft launch' to a combined, mandatory scheme across all three Councils covering all forms of residential growth (greenfields and brownfields).

The options are:

Policy Support

Objectives and policies would be inserted into each district plan supporting the provision of affordable housing as part of re zoning proposals and resource consent applications. The provision of affordable housing (as to be defined) would be identified as a desired positive effect which could be used to off-set some negative effects (such as increased density). The objectives and policies may also come into play when considering private plan change requests. Retention mechanisms would need to be specified, and could include transfer of land to the Council.

The benefit of the option would be that the concept of affordable housing contributions would be incorporated into the district plans, allowing for the concept to become part of the RMA 'landscape'. However methods to implement the policy would not be prescribed, with the opportunity to take up the objective and policy support dependent upon subdividers and developers.

Greenfields first

This option would introduce a mandatory affordable housing requirement on new greenfields residential subdivisions and housing developments, preferably across all three Councils at the same time. Geographic areas would likely need to be set within which the provision would apply. For example, the defined urban expansion areas around Hamilton, growth cells around Te Awamutu and Cambridge, and the larger settlements in Waikato (such as Raglan and Pokeno). A combined approach will help to address concerns that if only applied to one or two areas, then there may be a displacement of demand to areas not covered by the requirement. A requirement level of 10% of lots / units to be at an affordable price may be appropriate, although this would need to be verified through viability testing.

Contributions would most likely be based on land and units sold at an affordable price to eligible buyers, or an equivalent contribution of land or money to be paid to the Council. If the purpose is to dedicate serviced lots and/or units to Councils at no cost (for onward ownership by community housing providers), then this option would need to be detailed, subject to an appropriate rate of contribution.

Full combined plan change

Under this option, the mandatory requirement would apply to all greenfields and brownfields developments (effectively any residential development in a residential or business zone). The greenfields component would operate as per above. For brownfields, a minimum threshold would need to be set for a requirement, such as any development involving 5 or more lots or units (so as to avoid negatively impacting upon small scale infill and redevelopment). The contribution from brownfields areas is likely to focus on a monetary contribution (for example a set rate per square metre of floorspace constructed).

As a sub option, a focus of the brownfields component could be confined to the areas to be upzoned as part of the Council's response to the NPS-UD 2020.

10.4 Assessment

These three options can be considered against a range of criteria that take into account the various factors set out in previous sections, including:

- Fit with the RMA/ RMA plans
- Extent of support for the objective of mixed communities
- Likely number of affordable housing / lots generated
- Impact on development feasibility
- Compliance/ monitoring requirements.

The following table lists the options and considers them against the criteria. A simple 'green- yellow-amber' rating is used to highlight the key relative benefits or disadvantages of the options.

Table 11: Analysis of options

Criteria	Option A – supportive policy	Option B – greenfields first	Option C – brownfields and greenfields
Fit with the RMA / RMA plans	Likely to be accepted if the policy approach is enabling, rather than prescriptive	While likely to be accepted as a possible RMA method, it will be necessary to show that the requirement will not be a significant deterrent to greenfields growth	Likely to be challenged on the basis of imposing a further barrier to intensification in brownfields
Rating			
Support mixed communities	Limited support for the outcome, given take up would be voluntary	Will assist in addressing core area of concern – limited housing choices in greenfields areas	Should help with ensuring that redevelopment does not lead to displacement of lower income households
Rating			
Affordable units generated	Few units likely to be provided, unless some form of processing incentive is tied to uptake of the policy	Should result in steady stream of lots/units in greenfields areas	In addition to greenfields supply, some units will be provided in brownfields, particularly if larger apartment developments begin to occur (for example around Hamilton CBD)
Rating			
Impact on development feasibility	Limited or no impact	Provided the requirement is modest, unlikely to negatively impact on feasability	More likely to delay some brownfields redevelopment
Rating			

Compliance / monitoring	Limited compliance and monitoring	Some monitoring and compliance issues if lots/units sold with retention mechanism	Complex compliance and monitoring requirements as policy more likely to generate cash in lieu from brownfields developments
Rating			

Requirement versus financial contribution (in lieu fee)

A key variable is the form of the affordable housing contribution. Options cover:

1. Lots and units sold to eligible buyers, at a discount to market rates, subject to retention mechanisms
2. Lots and units sold to Community Housing providers in the first instance, and if not purchased, sold to eligible buyers
3. Monetary contribution in lieu of sale of affordable lots or units paid to Council for the purpose of affordable housing
4. Land and or units transferred to the Council at no cost for the purpose of affordable housing, or equivalent monetary contribution.

The question of which is the best form of contribution is dependent upon what structures are in place to implement the option. Sale of units to eligible buyers is likely best suited to greenfields development, but requires significant monitoring requirements. Purchase of units by Community Housing providers requires that these providers are present and have a source of funding. Contributions of land or money to Councils may generate some such funding, but mechanisms need to be in place to ensure funding flows into the provision of affordable units.

The RMA (section 108 (10)) provides that financial contributions may be imposed in accordance with the purposes specified in the plan or proposed plan (including the purpose of ensuring positive effects on the environment to offset any adverse effect) and that the level of contribution is determined in the manner described in the plan or proposed plan.

10.4.1 Recommendation

It is recommended that the 'greenfields first' option be developed. This recognises that the FPP area is subject to significant urban expansion pressures, and that there is long term benefit from ensuring that part of the housing supply to be developed over the next 10 years or so should assist directly with affordability issues. Brownfields redevelopment is underway, but it is likely to be some years before larger scale redevelopment starts to take hold.

Based on the experience of the greenfields areas, any programme could then be rolled out to selected brownfields areas (i.e. areas likely to see significant redevelopment).

While the contribution rate would need to be set, it is suggested that the contribution process be built around the following:

1) 10% of lots sold at an affordable price to registered community housing providers, with affordability based on median household income, or
2) A financial contribution of land or money of equivalent commuted value to (1) – being the difference between the prevailing market rate of the lots and the affordable price - paid to the Council for the purposes of funding the development of affordable units.

Key Points

Options to progress affordable housing provisions include introducing supportive objectives and policies (but no methods); making the provision of affordable housing a requirement on new greenfields subdivisions; or applying an affordable housing requirement across greenfields and brownfields areas.

Taking into account the local growth management context, it is recommended that a ‘greenfields first’ option be developed that would apply across the planned urban expansion areas of the three Councils, as well as new areas proposed by developers. This option recognises that the FPP area is currently subject to significant urban expansion pressures, and that there is long term benefit from ensuring that part of the housing supply to be developed over the next 10 years should assist directly with affordability issues.

Based on the experience of the greenfields areas, any programme could then be rolled out to selected brownfields areas (i.e. areas likely to see significant redevelopment).

11. Developing Support

11.1 Developing partnerships

Affordable housing requirements are a controversial topic. It is a policy response that will need assessment in terms of Section 32 of the RMA and will be subject to significant scrutiny through the statutory process.

Building support for an affordable housing policy is therefore important. Coordinating policy across jurisdictions is likely to be critical in the success of an affordable housing policy in the FPP areas, given the extent of housing market inter-relationships present.

Councils can take a variety of steps to help develop a wider understanding of the need for affordable housing requirements. Typical steps may involve:

- recognising in relevant LGA strategies that affordability issues take more than a 'supply response' to resolve
- setting up 'cross-party' taskforces (e.g. Mayoral Taskforce) to study options
- advocating for supportive legislative provisions in the RMA reforms
- researching market feasibility
- engaging with the development community
- exploring retention options
- undertaking Section 32 type analysis of options
- identifying budget for implementation and monitoring.

11.2 Transitional Issues

While building support for an affordable housing policy is vital, no matter how widespread that support may be, introducing any new mandatory requirements is always likely to engender some reactions from developers and landowners. In particular is dealing with the time lag to get any policy through the statutory process and the potential for pre-emptive consents to be sought during this period.

Rules in plan changes have legal effect at different points in time under section 86B of the RMA. For any affordable housing requirement, this point is when a decision on submissions on the proposed rules is made and publicly notified under Clause 10(4) of Schedule 1. Until a rule has legal effect, there is no ability to consider a proposed rule in the assessment of a resource consent application.

In contrast to rules, objectives and policies in a proposed plan change do have legal effect immediately upon public notification of a plan change. However, the objectives and policies are likely to have little weight until decisions on submissions have been made.

Options to address this risk include:

- seeking rules to have early legal effect;
- using streamline planning processes to shorten statutory processes; and

- following collaborative planning processes.

11.2.1 Rules

Rules can be given legal effect earlier than once decisions on submissions have been made. An earlier date can be specified in an order from the Environment Court, if the Environment Court grants an application made by the Council to the Court under section 86D(2) of the RMA. However, the grounds for any such order are limited. Environment Court decisions (such as Re Auckland Council [2020] NZEnvC 99, (2020) 21 ELRNZ 899) have identified factors such as:

- the nature and effect of the proposed changes vis-à-vis the status quo;
- the basis for arguing that the immediate legal effect was necessary;
- the extent of consultation undertaken;
- the strategic importance of the plan change; and
- the history of planning consideration of the relevant issues.

Experience would suggest that the Court would be reluctant to order that rules not directed at protecting an environmental resource have early legal effect.

Even if early legal effect is provided, new rules may have little weight at the start of the statutory process.

11.2.2 Streamline planning processes

The FPP Councils could collectively or individually seek the Environment Minister's approval for use of a streamlined planning process for any plan changes. The streamlined planning process may shorten the time taken to notify and make a decision on a plan change, it also removes appeal rights.

A local authority may apply for a direction on use of the streamlined process from the Minister if the local authority is satisfied that the application meets at least one of the specified criteria, with the most relevant criterion being:

- *the proposed planning instrument is required to meet a significant community need.*

If accepted by the Minister, then the Councils have to follow the process set out by the Minister (which is likely to involve submissions and a hearing). The Minister then makes the final decision to approve or decline the plan change; there are no appeal rights. There is a risk that after considering the matter, the Minister will decline the plan change. As the Minister's decision is final, there is no ability to review this decision. That is, there is also no ability to further refine and develop proposed provisions as is often the case through the appeal process (which can involve substantial mediation between parties).

11.2.3 Collaborative planning

A collaborative process is where a range of stakeholders are involved in developing planning solutions rather than being consulted on established proposals. Councils' partner with their communities to share knowledge and work together to generate a better understanding of the issues and differing views; they then develop, evaluate and implement solutions to those challenges together.

While the collaborative planning process has been removed from the RMA, the FPP Councils could commit to a similar process. Typical steps involve:

- convening of a collaborative group representing a cross-section of interests;
- establishing terms of reference;
- providing technical support to the collaborative group;
- requiring provision of consensus recommendations in a report; and
- a commitment from the Councils to ‘give effect’ to the consensus recommendations through a plan change.

The collaborative process does not guarantee a consensus outcome can be achieved. A prior commitment to introduce a plan change that implements a consensus outcome may place the Councils in a difficult position if there is a substantial clash between the recommendations and other Council strategies.

The resulting plan change is still subject to the Schedule 1 processes (submissions, hearing and appeal rights). The collaborative process is not necessarily intended to provide a faster first-instance planning route (although it can if appeals are a likely outcome). Experience shows that these processes take time, and the best results are gained when the collaborative group is not unduly time constrained.

11.3 RMA reforms

With the start of the RMA reform process underway (exposure draft of the proposed Natural and Built Environment Act) the question arises as to whether any district plan-based approaches should wait until the new Act is in place. It is also notable that a number of Councils (such as Auckland Council) have specifically identified the need to get in place legislative support for any district plan-based affordable housing provision, rather than proceed under the RMA.

The new Act may take some years to come into force, and the extent to which it may better support an affordable housing requirement (compared to the RMA) is unknown at this stage. Early indications are that the new Act will place a high priority on housing supply. This is positive for relative housing affordability, but as noted more supply may not, by itself, deliver income-related affordability.

There is also a likelihood that the Act will require ‘combined plans’ for a region. This would allow for an integrated, comprehensive region-wide response, rather than district-by-district plan provisions that may be different from one another.

Given the time that will be involved in developing an affordable housing policy and associated methods, it is recommended that work proceed under the RMA, but with an ‘eye’ on the RMA reform process.

Key Points

Building support for an affordable housing policy is very important.

Once a proposed policy is announced, there is the possibility of pre-emptive consents being sought to avoid any new requirements. There are a few actions that councils can take to reduce this risk, with the streamlined planning process offering one avenue.

Current indications are that the Natural and Built Environment Act that is to replace the Resource Management Act may not provide any additional support for affordable housing policies, compared to the current legislative framework.

Attachment One: District plan analysis

Waikato PDP

Waikato Proposed District Plan Decisions Version	
Introduction	
1.12.1 **Strategic Direction**	a) Waikato District Council as a Future Proof Partner has made a commitment to the Future Proof Strategy which will manage growth for the next 30 years. Settlement patterns are a key tool used within the Future Proof Strategy. They provide the blueprint for growth and development and aim to achieve a more compact and concentrated urban form over time. b) Master plans are an important method for establishing settlement patterns of land use and the transport and services network within a defined area. They can provide a detailed examination of the opportunities and constraints relating to the land including its suitability for various activities, infrastructure provision, geotechnical issues and natural hazards. They should identify, investigate and address the potential effects of urbanisation and development on natural and physical resources. c) Master plans should explain how future development will give effect to the regional policy statement and how any adverse effects of land use and development are to be avoided, remedied or mitigated by proposed plan provisions. This will ensure that all the effects of development are addressed in advance of development occurring. A master planning is an appropriate foundation for the plan change process required to rezone land. d) The National Policy Statement for Urban Development Capacity 2016 sets monitoring and information requirements for Council to ensure responsiveness and the ability to deliver an adequate supply of development ready land in the right location and at the right time. The intention is to ensure that planning decisions in urban environments are well-informed, timely and responsive to changing population growth demands, market conditions and infrastructure delivery. e) It is expected that a comprehensive set of key indicators on growth drivers, growth management, and the spatial distribution of growth will include: i. Patterns and composition of population change and growth; ii. Balance of growth inside and outside the existing urban area; iii. Shifts in housing preferences, including location and typology; iv. Key bulk infrastructure delivery and funding availability; v. Changes in strategic direction and/or priorities. f) Progress will be measured against the anticipated growth settlement patterns and targets identified in the Future Proof Strategy as well as the indicative timeframes for master plans and infrastructure provisions,

<table>
<tr><td></td><td>changes in the growth patterns reported in the Future Proof Monitoring Report, National Policy Statement on Urban Development Capacity assessments and monitoring requirements.</td></tr>
<tr><td>1.12.3

Built Environment</td><td>a) A district which provides a wide variety of housing forms which reflect the demands of its ageing population and increases the accessibility to employment and community facilities, while offering a range of affordable options.
b) A district that encourages and celebrates quality design that enhances and reflects local character and the cultural and social needs of the community.
c) A district that has compact urban environment that is focused in defined growth areas, and offers ease of movement, community wellbeing and economic growth.</td></tr>
<tr><td colspan="2">Urban Environment</td></tr>
<tr><td colspan="2">4.1 Strategic Direction</td></tr>
<tr><td>4.1.1 Objective – Strategic</td><td>a) Liveable, thriving and connected communities that are sustainable, efficient and co-ordinated.
b) National Policy Statement on Urban Development Capacity Minimum Targets The minimum targets for sufficient, feasible development capacity for housing in the Waikato District area are met, in accordance with the requirements of the National Policy Statement on Urban Development Capacity 2016.

<table>
<tr><th rowspan="2">Area</th><th colspan="3">Minimum Targets (number of dwellings)</th></tr>
<tr><th>Short to Medium
1-10 years
(2017-2026)</th><th>Long term
11-30 years
(2027-2046)</th><th>Total</th></tr>
<tr><td>Waikato District</td><td>7,100</td><td>12,300</td><td>19,400</td></tr>
</table></td></tr>
<tr><td>4.1.3 Policy - Location of development</td><td>b) Locate urban growth areas only where they are consistent with the Future Proof Strategy Planning for Growth 2017.</td></tr>
<tr><td>4.1.5 Policy – Density</td><td>a) Encourage higher density housing and retirement villages to be located near to and support commercial centres, community facilities, public transport and open space.
b) Achieve a minimum density of 12-15 households per hectare in the Residential Zone.
c) Achieve a minimum density of 8-10 households per hectare in the Village Zone where public reticulated services can be provided</td></tr>
<tr><td>4.1.10 Policy – Tuakau</td><td>a) Tuakau is developed to ensure;
i. Subdivision, land use and development in Tuakau’s new residential and business areas occurs in a manner that promotes the development of a variety of housing densities, diversity of building styles and a high quality living environment;</td></tr>
</table>

4.1.11 Policy – Pokeno	a) Pokeno is developed to ensure; i. Subdivision, land use and development of new growth areas does not compromise the potential further growth and development of the town;
4.1.12 Policy - Te Kauwhata	a) Te Kauwhata is developed to ensure; ii. Lakeside is the only area that provides for the medium term future growth and is developed in a manner that connects to the existing town and maintains and enhances the natural environment; and iii. A variety of housing densities is provided for. b) Development of the Lakeside Precincts provides for growth, achieves a compact urban form and creates a high level of amenity and sense of place. i. Provides for medium density and higher density housing and including housing for the elderly and a range of housing typology on small lots to assist housing affordability;
4.1.13 Policy – Huntly	a) Huntly is developed to ensure; i. Infill and redevelopment of existing sites occurs;
4.1.14 Policy – Taupiri	a) Taupiri is developed to recognise; i. The changes that may result from the completion of the Waikato Expressway including the increased demand for housing; iv. Infill and redevelopment of existing sites occurs.
4.1.15 Policy – Ngaruawahia	a) Ngaruawahia is developed to ensure: v. Infill and redevelopment of existing sites occurs.
4.1.17 Policy - Te Kowhai	a) The scale and density of residential development in the Te Kowhai Village Zone achieves; i. lower density (3000m2 sections) where the development can be serviced by on site nonreticulated wastewater, water and stormwater networks; or ii. higher density (1000m2 sections) where the development can be serviced by public reticulated wastewater, water and stormwater networks; c) Placement of dwellings to protect the future ability to increase density should public reticulated wastewater and water networks become available.
4.1.18 Policy – Raglan	a) Raglan is developed to ensure: i. Infill and redevelopment of existing sites occurs; ii. A variety of housing densities is provided for; iii. Rangitahi is the only area that provides for the medium term future growth and is developed in a manner that connects to the existing town and maintains and enhances the natural environment; and
4.2 Residential Zone	
4.2.16 Objective – Housing options	a) A wide range of housing options occurs in the Residential Zones of Huntly, Ngaruawahia, Pokeno, Raglan, Te Kauwhata and Tuakau.

	b) Residential zoned land near the Business Town Centre Zone and close to transport networks is used for higher density residential living with access to public transport and alternative modes of transport.
4.2.17 Policy – Housing types	a) Enable a variety of housing types in the Residential Zone where it is connected to public reticulation, including: i. Integrated residential development such as low-rise apartments and multi-unit development; and ii. Retirement villages.
4.2.18 Policy – Multi-unit development	a) Ensure multiunit residential subdivision and development is designed in a way that: i. provides a range of housing types; ii. Addresses and integrates with adjacent residential development, town centres and public open space; iii. Addresses and responds to the constraints of the site, including typography, natural features and heritage values; iv. Supports an integrated transport network, including walking and cycling connections to public open space network; and v. Maintains the amenity values of neighbouring sites.
Village Zone	
4.3.1 Objective – Village Zone character	**a) The character of the Village Zone is maintained.**
4.3.2 Policy – Character	a) Buildings and activities within the Village Zone are designed, located, scaled and serviced in a manner that: i. Is low density; ii. Maintains the semi-rural character;
Urban Subdivision and development	
4.7.1 Objective – Subdivision and Land Use Integration	**a) Subdivision layout and design facilitates the land use outcomes sought for the residential, business, industrial, reserve and specific purpose zones.**
4.7.4 Policy – Lot sizes	a) Minimum lot size and dimension of lots enables the achievement of the character and density outcomes of each zone; and b) Avoid undersized lots in the Village Zone.
4.7.6 Policy – Co-ordination between servicing and development and subdivision	a) Ensure development and subdivision: i. Is located in areas where infrastructural capacity has been planned and funded; ii. Is located in areas subject to an approved structure plan and provide sufficient infrastructure capacity to meet the demand identified in the structure plan; iii. Achieves the lot yield anticipated in an approved structure plan; and
4.7.7 Policy – Achieving sufficient development density to support	a) In areas where there is no structure plan, ensure that the maximum potential yield for the zone is achieved to support infrastructure provision. b) Recognise that the minimum potential yield may not be achieved where there are proven geotechnical constraints

the provision of infrastructure services	
Specific Zones – Hampton Downs Motorsport and Recreation, Te Kowhai Airpark, and Rangitahi Peninsula	

Hamilton District Plan

Hamilton District Plan	
2.2.1	**Hamilton is characterised by an increasingly sustainable urban form.**
2.2.1a	Development makes use of the identified opportunities for urban intensification.
2.2.1c	Land use zoning and subdivision controls will be used as methods to achieve the sustainable use of the City's land resources including providing for separation, proximity and agglomeration of land uses.
2.2.2	**Urban development takes place within areas identified for this purpose in a manner which uses land and infrastructure most efficiently.**
2.2.2a	Development shall occur in locations that are consistent with the growth management policies of the Waikato Regional Policy Statement.
2.2.2b	Any development that is within an identified growth area is to be undertaken in general accordance with an approved Structure Plan.
2.2.2c	The release of land for urban development will not be allowed unless appropriate infrastructure is available and the servicing of this land does not compromise the efficiency and sustainability of planned infrastructure.
2.2.6	**Sufficient feasible development capacity for housing is provided to meet the targets in the table below:**

Minimum Targets (number of dwellings)			
Area	Short to Medium 1-10 years (2017-2026)	Long term 11-30 years (2027-2046)	Total

	Hamilton City	13,300	23,600	36,900

2.2.7	**A range of housing types and densities is available to meet the needs of a diverse range of people and communities.**
2.2.7a	Residential development provides for a range of household choices and the diversity of cultural and social needs.
Peacocke Structure Plan	
3.4.1.5	**Ensure that higher density development is linked to social and natural amenity.**
3.4.1.5a	Increase density around nodes, parks and riverfront areas.
3.4.1.6	**Encourage an overlapping mix of land uses.**
3.4.1.6a	Provide a wide variety of land use activities within comfortable walking distance of the highest population densities and amenity.
3.4.1.6b	Use mixed use planning rules to encourage a diverse and compatible range of activities, both vertically and horizontally.
Te Awa Lakes Structure Plan	
3.8.1.2	**Establish a high-quality medium density urban residential environment.**
3.8.1.2a	Encourage higher densities in areas of high amenity close to lakes and open spaces.
3.8.1.2e	Provide a range of housing choices to support a diverse and active community.
Residential Zone	
4.2.1	**A range of housing types and densities is available to meet the needs of all communities.**

4.2.1a	A variety of housing densities and types should be developed, consistent with the: i. Capacity of the existing infrastructure. ii. Target densities promoted by Future Proof and the Regional Policy Statement. Specifically this means achieving, as a minimum, the following average gross density targets (excluding transport corridors) over time in the Residential zones. 1. 16 dwellings per hectare for development (excluding the identified Large Lot Residential Areas). 2. 30 dwellings per hectare for identified intensification areas.
4.2.1b	Higher-density residential development should be located within and close to the Central City, suburban and neighbourhood centres, tertiary education facilities and hospital, and in areas serviced by passenger transport.
4.2.2	**Efficient use of land and infrastructure.**
4.2.2a	Residential development shall use land and infrastructure efficiently by: i. Delivering target yields from housing development in both greenfield growth areas and intensification areas, as indicated by rules or Structure Plans. ii. Staging and sequencing the development as indicated by rules or Structure Plans. iii. Otherwise complying with relevant Structure Plans.
4.2.13	**The Te Awa Lakes Medium Density Residential Zone enables a comprehensively designed residential development incorporating a component of affordable housing and integrated with the adjacent adventure park tourist and recreation attraction, the Waikato River, and nearby communities, all contributing to an attractive gateway to the city.**
4.2.13a	A range of housing types, including higher densities, are enabled to provide a choice of living environments, connected to other communities through multi-modal and nonmotorised transport.
4.2.13b	The development achieves higher density in conjunction with high quality amenity through a masterplanned approach that informs the Te Awa Lakes Structure Plan and related rules.
4.2.13c	The development provides affordable housing through the higher density and by specifying that a minimum percentage of new homes do not exceed a maximum purchase price.
4.2.13d	Development is sensitive to the Waikato River interface through lower density development and building setbacks.
Central City Zone	

7.2.1	**The Hamilton Central City is the heart of the Waikato region acting as a diverse, vibrant and sustainable metropolitan centre.**
7.2.1a	Opportunities are provided within the Central City to live, work and play for people of varying ages, cultures, incomes and all levels of mobility.
7.2.1g	Housing densities are consistent with 50 dwellings per hectare in the Central City.
7.2.3	**Amenity values within the Central City that encourage the growth of a sizeable, centrally located residential community.**
7.2.3a	Increased levels of residential accommodation within and close to the Central City is promoted and provided for.
7.2.3b	Mixed-use activity within the Central City is supported, where it is consistent with existing activities, to sustain the vitality of the central area and enable increased use of upper floor areas for business and residential activity.
7.2.7	**High-density, sustainable, residential mixed-use development, supporting commercial activities and small to medium scale offices, within a high amenity environment appropriate to attract and retain a significant resident and working population.**
7.2.7c	Residential development is close to existing amenities, including open spaces (such as opposite the north Tristram Street parks), passenger transport, supermarkets and sporting facilities.
Rototuna Town Centre Zone	
13.2.6	**Development of compact, well designed, and functional residential developments with high levels of amenity.**
13.2.6a	Ensure that high, medium and mixed-use residential development establish in the locations shown on the Rototuna Town Centre Concept Plan.
13.2.6c	Ensure that residential development in the Town Centre delivers densities consistent with those promoted by Future Proof and the Regional Policy Statement.

Waipā District Plan

Waipā District Plan	
Strategic Growth Management	
1.3.1	**Objective - Settlement pattern** **To achieve a consolidated settlement pattern that:** **(a) Is focused in and around the existing settlements of the District; and** **(b) Supports the continued operation, maintenance, upgrading and development of regionally important sites and regionally significant infrastructure and nationally significant infrastructure, and provides for on-going access to mineral resources.**
1.3.1.1	Policy - Settlement pattern To ensure that all future development and subdivision in the District contributes towards achieving the anticipated settlement pattern in the Future Proof Growth Strategy and Implementation Plan 2009 and the District Growth Strategy.
1.3.1.2	Policy - Towns To provide for a consolidated settlement pattern by ensuring that new urban activities are focused within the urban limits of the towns of the District and in particular: (a) Residential developments and subdivision being located within the residential zones of Cambridge, Te Awamutu and Kihikihi, and also above ground floor level within the Commercial Zone; provided that this policy does not limit further development within the Residential Zone at Karāpiro identified on Planning Map 31.
1.3.2	**Objective - Planned and integrated development** **To ensure that development and subdivision happens in a way and at a rate that is consistent with the anticipated settlement pattern, maximises the efficient use of zoned and serviced land, and is co-ordinated with cost-effective infrastructure provision**
1.3.2.1	Policy - Implement Proposed Waikato Regional Policy Statement, Future Proof 2009 and Growth Strategy To allow subdivision and development that will give effect to the settlement pattern and directions of the Proposed Waikato Regional Policy Statement and that is consistent with the settlement pattern and directions in the Future Proof Growth Strategy and Implementation Plan 2009 and the Growth Strategy, and avoid unplanned developments which are inconsistent with these directions.
1.3.2.4	Policy - Efficient use of zoned and serviced land Maximise the efficient use of existing physical resources by requiring all new serviced residential greenfield development and subdivisions to have a range of lot sizes that achieve an overall target density of 12 to 15 dwellings per ha of gross developable area.

Residential Zone	
2.3.4	**Objective - Providing housing options** **To enable a wide range of housing options in Cambridge, Te Awamutu, Kihikihi, and Karāpiro in a way that is consistent with the key elements of the character of each place**
2.3.4.1	Policy - Sustainable and efficient use of land To meet changing housing needs and to reduce demand for further land to be rezoned, by providing for a range of housing options. Developments that are comprehensively designed where spaces can be shared will be preferred.
2.3.4.2	Policy - Secondary dwellings To meet a range of housing needs by enabling one secondary dwelling per site where neighbourhood amenity and on-site amenity standards can be met, provided that physically separate dwellings on a site shall be avoided.
2.3.4.3	Policy - In-fill housing To enable comprehensively designed in-fill housing developments, provided that the development is not located within the compact housing overlay or a character cluster as identified on the Planning Maps.
2.3.4.4	Policy - Marae and Papakāinga To enable sustainable marae and papakāinga developments acknowledging that the design and layout of a marae or papakāinga development may be different than that generally found in the Residential Zone.
2.3.4.5	Policy - Compact housing To enable compact housing in the following locations: (a) Areas identified for compact housing on the Planning Maps or on an approved structure plan; or (b) Where the intensive use is off-set by adjoining an area zoned for reserve purposes on the Planning Maps that is greater than 1000m², including the Cambridge town belt; or (c) Within a 400m radius of a Commercial Zone. (d) Compact Housing will be supported where it is consistent with compact housing provided on neighbouring land. Provided that: (i) In all cases compact housing shall be comprehensively designed and shall incorporate the sustainable design and layout principles (refer to Section 21 – Assessment Criteria and Information Requirements); and

	(ii) At the boundaries of the site, compact housing shall be consistent with the predominant height and bulk of development in the neighbourhood; and (iii) Sites which adjoin a cul-de-sac should be avoided.
2.3.5	Objective - Comprehensive design and development To ensure that developments are comprehensively designed, incorporate urban design and CPTED principles, are co-ordinated with infrastructure provision, and integrated with the transportation network.
2.3.5.1	Policy - Comprehensive design of in-fill housing, compact housing, retirement village accommodation and associated care facilities, rest homes, and visitor accommodation To ensure that in-fill housing, compact housing, retirement village accommodation and associated care facilities, rest homes and visitor accommodation are comprehensively designed by: (a) Ensuring that developments effectively relate to the street, existing buildings, and adjoining developments in the neighbourhood; and (b) Ensuring that in the Cambridge Residential Character Area new dwellings between existing dwellings on the site and the road shall be avoided; and (c) Avoiding long continuous lengths of wall; and (d) Maximising the potential for passive solar gain; and (e) Providing for sufficient private space for the reasonable recreation, service and storage needs of residents; and (f) Retaining existing trees and landscaping within the development where this is practical; and (g) Where appropriate provide for multi-modal transport options and provide for links with existing road, pedestrian and cycleways; and (h) Incorporating CPTED principles; and (i) Addressing reverse sensitivity effects; and (j) Mitigating adverse effects related to traffic generation, access, noise, vibration, and light spill; and (k) Being appropriately serviced and co-ordinated with infrastructure provision and integrated with the transport network.
2.3.5.2	Policies - Cambridge Park and C1 and C2/C3 Structure Plan Area To encourage creative and innovative approaches to urban design and development within the Cambridge Park Residential Zone and the C1 and C2/C3 Structure Plan Area.
2.3.5.3	To confer a strong, coherent urban identity to the neighbourhood within the Cambridge Park Residential Zone.

Commercial Zone	
6.3.2	**To achieve vibrant and active centres which have a distinctive character.**
6.3.2.4	To enable residential activities and Residential Based Visitor Accommodation within Commercial Zones provided they are not located at ground level (except for the Cook Street/Shakespeare Street area).
6.3.2.5	In that part of the Commercial Zone in Cook Street/Shakespeare Street that directly adjoins reserves along the Waikato River, residential activities and Residential Based Visitor Accommodation at ground level are enabled where the residential activity or Residential Based Visitor Accommodation faces and relates to the Waikato River, meets the principles of CPTED, and where practicable provides public access to the Waikato River.
Deferred Zones	
14.3.1	**Land intended for conversion from its current land use to an alternative land use in order to respond to growth demands is clearly identified, occurs in a planned manner, and its resources are protected for its anticipated future use.**
14.3.1.1	Land which is intended to be converted from its current land use to respond to growth demands will have its current zoning and its deferred zoning clearly identified.
14.3.1.3	To provide a framework for new growth areas through a comprehensive and integrated structure planning process.
14.3.1.4	All Deferred Zones are able to be rezoned for their intended future use, subject to Policy 14.3.1.5 below, provided it is in accordance with the timing, location and extent of the growth cells as outlined in Appendix S1 of the Plan, no amendments to the District Plan objectives, policies or rule framework are required, the process in Policy 14.3.1.5 has been followed, and adverse effects are avoided, remedied or mitigated. In respect of the timing for the release of growth cells, there is provision within the rule framework for the release of additional growth cells where Council is satisfied there is less than three years supply of development ready land in any town or village within the district.
14.1.3.7	The Cambridge North Deferred Residential Zone, the Deferred Reserves Zone within the Cambridge North Structure Plan Area, and the Cambridge North Neighbourhood Centre Deferred Commercial Zone located within the C1 Growth Cell (in relation to Cambridge North Neighbourhood Centre) will be rezoned in whole or in part for its intended future residential, commercial and/or recreation use pursuant to Council resolution only once Council is satisfied that: a) There is a development agreement in place with Council and the developer which clearly outlines the nature and timing of any necessary infrastructure, and how this infrastructure is to be developed and funded.

	The development agreement must be clear as to whether the infrastructure is implemented prior to development or as part of the development process; and b) In the case of the Cambridge North Residential Area, there is a demonstrated plan in place by the developer that identifies how a minimum density of 12 dwellings per hectare will be achieved over the area to be rezoned.

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Affordable Housing (Indicative provision)

The following is a draft of possible amendments to the Operative and Proposed QLDC District Plans relating to affordable housing. The amendments have not been adopted by the Council. The following is provided as an 'exposure draft' to help elicit feedback.

Operative District Plan

Delete 4.10 Affordable and Community Housing.

Proposed District Plan

Insert the following into Chapter 3 Strategic Direction

3.2 Strategic Objective

Add the following to 3.2.1 The development of a prosperous, resilient and equitable economy in the district (addresses issue 1):

<u>3.2.1.8 Affordable housing choices are provided so that a diverse and economically resilient community representative of all income groups is maintained into the future.</u>

Note: Existing Strategic Objectives 3.2.1.8 onwards to be renumbered.

3.3 Strategic Policies

<u>Affordable housing</u>

<u>3.3.38 Ensure affordable housing choices for low to moderate income households are incorporated into new neighbourhoods and settlements and in redevelopments of existing neighbourhoods.</u>

<u>3.3.39 Ensure that affordable housing provided in accordance with Policy 3.3.38 is retained to meet the long term needs of current and future generations of low to moderate income households.</u>

<u>3.3.40 Require from development and subdivision that has a residential component, the transfer of land or money to the Council as a financial contribution towards meeting Objective 3.2.1.7 and policy 3.3.38 and 3.3.39.</u>

40 <u>Affordable Housing</u>

<u>40.1 Purpose</u>

The purpose of this chapter is to make provision for housing choices for low to moderate income households in new neighbourhoods and in redevelopments of existing neighbourhoods.

The combination of multiple demands on housing resources including geographic constraints on urban growth, the need to protect valued landscape resources for their intrinsic and scenic values, proportionately high rates of residential visitor accommodation and holiday home ownership means that the District's housing market cannot function efficiently, with long term consequences for low to moderate income households needing access to affordable housing. This has adverse consequences for the integrated and sustainable management of natural and physical resources, including pressure for additional urban expansion, displacement of lower income households to outlying settlements, and disablement of social and economic well being.

Affordable housing is where a low or moderate income household spends no more than 35% of their gross income on rent or mortgage (principal and interest) payments. In the Queenstown Lakes District, and for the purposes of these provisions, 100% of the District's Median Household Income for the most recent 12 months is used to define a low to moderate income.

The rules in this chapter apply to residential activity (subdivision and development). Provision is made for affordable housing through imposing as standard and as conditions of consent a requirement for a financial contribution to be made.

This Chapter sets out the purpose of a financial contribution, and the manner in which the level of contribution (i.e. the amount) is determined. A financial contribution taken by the Council is for a different purpose to any development contribution listed in the Council's current contributions policy and may be imposed in addition to a development contribution.

40.2 Objectives and Policies

40.2.1 Objective: Provision of affordable housing for low to moderate income households in a way and at a rate that assists with providing for social and economic well-being and managing natural and physical resources.

Policies

40.2.2 Target affordable housing contributions to residential subdivisions and developments (including Residential Visitor Accommodation and independent living units in retirement villages) where housing is in high demand and generally close to employment, educational and community services, being land within Urban Growth Boundaries, or where a plan change or resource consent seeks to establish urban scale development.

40.2.3 Require developments that indirectly influence housing choices for low to moderate income households, such as residential development in Resort, Special and Settlement zones and Rural Residential subdivisions to contribute to meeting affordable housing needs.

40.2.4 Recognise that the following forms of residential development provide affordable housing and should not be subject to the affordable housing contribution:

a) social or affordable housing delivered by Kāinga Ora, a publicly owned urban regeneration company, the Council or a registered community housing provider,

b) managed care units in a Retirement Village (as defined by the Retirement Villages Act 2003) or Rest Home (under the Health and Services Disability Act 2001)

c) Residential units less than $40m^2$ in floor area), or

d) residential development in which rooms are individually let and cooking and living facilities are shared, such as boarding houses (as defined by the Residential Tenancies Act 1986).

40.2.5 Determine the amount of financial contributions in consideration of the following matters:

a) The longer term demand for affordable housing

b) The impact of a contribution on the commercial feasibility of development at an area-wide scale and over different time periods.

c) The differences in commercial feasibility between greenfields and brownfields urban development.

40.2.6 Financial contributions in the form of a monetary contribution are preferred. Contributions in the form of land should be of serviced lots located within larger developments. Contributions of lots located outside the development site should only occur where this leads to a superior outcome in terms of access to services and community facilities.

40.2.7 Financial contributions received by the Council shall be used for the purposes of providing affordable housing for low to moderate income households.

40.3 Other Provisions and Rules

40.3.1 District Wide

Attention is drawn to the following District Wide chapters.

1 Introduction	2 Definitions	3 Strategic Direction
4 Urban Development	5 Tangata Whenua	6 Landscapes
25 Earthworks	26 Historic Heritage	27 Subdivision
28 Natural Hazards	30 Energy and Utilities	31 Signs
32 Protected Trees	33 Indigenous Vegetation and Biodiversity	34 Wilding Exotic Trees
35 Temporary Activities and Relocated Buildings	36 Noise	37 Designations
39 Wāhi Tūpuna	Planning Maps	

40.4 Interpreting and Applying the Rules

40.4.1 The requirement in Rule 40.8 for affordable housing applies to any residential development that is located:

(a) inside the Urban Growth Boundaries as identified on the Proposed District Plan Maps, or

(b) outside the Urban Growth Boundaries but within:

(i) a Settlements Zones;

(ii) any Residential Zone;

(iii) in a Rural-Residential Zone; or

(Iv) Special Zone or Resort Zones.

40.4.2 Contributions of money from a subdivision activity must be paid to the council before the issue of a certificate under section 224(c) of the RMA. Where land forms part or all of a contribution, all necessary legal agreements to ensure implementation of such a contribution must be completed before the issue of a certificate under section 224(c) of the RMA.

40.4.3 Contributions of money from a land use activity must be paid to the council before the issue of the necessary building consents under the Building Act 2004. Where land forms part or all of a contribution, all necessary legal agreements to ensure implementation of such a contribution must be completed before the issue of the necessary building consents under the Building Act 2004.

40.4.4 Where relevant, the estimated sales value of lots, units or residential floorspace shall be determined by a valuation report prepared by a Registered Valuer (mutually agreed between the Council and applicant) within the 3 months prior to the financial contribution being paid.

40.4.5 The requirement in Rule 40.4.1 for affordable housing does not apply to any development that:

(a) will provide more than 10% of dwellings as social or affordable housing delivered by Kāinga Ora , a publicly owned urban regeneration company, the Council or a registered community housing provider that complies with the requirements of Schedule 40.1, or

(b) is a managed care unit in a Retirement Village or Rest Home (as defined by the Retirement Villages Act 2003 or the Health and Disability Act), or

(c) is a residential development in which multiple households share cooking facilities and living areas, such as boarding houses as defined by section 66B of the Residential Tenancies Act 1986, or

(d) Is located in a Zone that already contains affordable housing provisions in the district plan, or where previous agreements and affordable housing delivery with Council have satisfied objective 3.2.1.8 and policies 3.3.38 to 3.3.40.

40.4.6 For the purposes of this Chapter, residential floorspace is defined as any floorspace in a building that accommodates bedrooms, living areas, home offices, kitchen dining areas, and bathrooms and laundry facilities used for domestic activities and associated circulation spaces like hallways and entrance areas.

40.4.7 Where an activity does not comply with a standard listed in the standards tables, the activity status identified by the 'Non-Compliance Status' column shall apply. Where an activity breaches more than one Standard, the most restrictive status shall apply to the Activity.

40.4.8 For restricted discretionary activities, the Council shall restrict the exercise of its discretion to the matters listed in the rule.

40.4.9 These abbreviations are used in the following tables. Any activity which is not permitted (P) or prohibited (PR) requires resource consent.

P – Permitted	C – Controlled	RD – Restricted Discretionary
D – Discretionary	NC – Non – Complying	PR - Prohibited

40.7 Advice Notes - General

To be developed. Likely to refer to Council practice note.

40.8 Rules – Activities

	Table 45.4 – Activities - Affordable Housing	Activity Status
40.8.1	Subdivision or development that is proposed to contain residential lots or units (including residential visitor accommodation units) and provides an affordable housing financial contribution in accordance with standard 40.9.1.	P
40.8.2	Subdivision or development that is proposed to contain, or is capable of containing residential lots or units (including residential visitor accommodation units) and does not provide an affordable housing financial contribution in accordance with standard 40.9.1.	D

40.9 Rules - Standards

	Table 45.5 – Standards - Affordable Housing	Non-compliance status
40.9.1	An Affordable Housing Financial Contribution shall be provided to Council as follows: 1. Subdivisions: a. Residential subdivisions within urban growth boundaries or other Residential Zones outside urban growth boundaries, (i) resulting in more than 1 but less than 20 new lots: A monetary contribution shall be paid to the Council equal to 5 - 10% of the sales value of serviced lots.	D

	Table 45.5 – Standards - Affordable Housing	**Non-compliance status**
	(ii) resulting in 20 or more lots: 5 - 10% of serviced lots are transferred for no monetary or other consideration to the council. b. Residential subdivisions in a Settlement, Rural-Residential, Resort or Special zones: (i) A monetary contribution shall be paid to the Council equal to 1 - 4% of the sale value of the lots created. 2. Development: a. Residential floorspace for any new or relocated units on lots that have not been subject to a financial contribution under 1 (a) above: A monetary contribution shall be paid to the Council equal to the lesser of: (i) 2.0% of the estimated sale value of the additional units, or (ii) $150 per sqm of the net increase in gross residential floorspace. b. Residential floorspace for any new or relocated units on lots that have not been subject to a monetary contribution under 1 (b) above: A monetary contribution shall be paid to the Council equal to: (i) $75 per sqm of the net increase in gross residential floorspace c. For residential floorspace on lots that have provided a monetary contribution under 1(a) above, a 'top up' monetary contribution shall be paid to the council, equal to the lesser of: 1 - 4% % of the estimated sale value of the additional units, or $150 per sqm of the net increase in gross residential floorspace, and less the per lot contribution paid under 1(a) or (b). For the purposes of this standard, the following types of residential developments: a. residential units less than 40sqm in floor area b. managed care units in retirement villages and rest homes c. residential floorspace that is used to provide social or affordable housing delivered by Kāinga Ora, the Council, a publicly owned redevelopment agency, or a registered community housing provider that complies with Schedule 40.1 d. residential floorspace in boarding houses for the purposes of providing accommodation involving shared living and kitchen	

	Table 45.5 – Standards - Affordable Housing	Non-compliance status
	shall not be counted as contributing to the total number of residential units in a development, nor be counted towards fulfilling the requirement of 40.9.1.	
40.9.2	Affordable lots provided in accordance with 40.9.1 (a) (ii) shall be located within the development site.	D
40.9.3	Where development is to be staged, the affordable housing contribution is to be provided as each stage proceeds, on a proportionate lot basis.	D

40.10 Assessment Matters

40.10.1 Discretionary Activities

Council has full discretion but will shall consider the following but not be limited by:

40.10.1.1 The amount of the contribution

a. Whether the site or development has unique or unusual characteristics that would mean full provision of the required number of affordable lots or monetary contribution imposes a significant financial burden on the development that would make the development unviable, as demonstrated by a site specific development feasibility assessment that utilises industry accepted assessment methodologies, and an alternative mix or contribution is appropriate. It is expected that a full assessment of costs will be required based on an "open book" approach i.e. the developer will be expected to make all of the relevant cost information available.

40.10.1.2 Lots versus monetary contribution

a. Whether the contribution is more appropriately provided in the form of money rather than land (lots) due to the location of the lots; their size and on-going high costs of upkeep
b. Whether there are advantages to community mix and affordable housing choices from transferring serviced lots or completed floorspace.

40.10.1.3 Off-site provisions

Affordable lots should be provided within the development site, however off-site locations may be considered for all or part of the requirement where:

c. there are exceptional reasons to avoid on-site provision, such as the site being poorly located for affordable provision, and/or

d. the alternative sites are in close proximity to the development (i.e. within 2kms) and offer a superior outcome in terms of improved access to services and transport and or improved mix of dwelling types. Particular consideration will be given to whether the off-site provision will better address priority needs, particularly family housing, and/or

e. the applicant has entered into a legally binding agreement with an Council approved community housing provider who can demonstrate that on-site provision will not meet their operational requirements and that an off-site location will deliver a superior outcome in terms of the number, mix and/or on-going management of the required retained affordable housing.

40.10.1.4 Staging of dwellings units and/or lots

a. Deferral of provision of affordable lots or units to subsequent stages should generally not occur.

b. Whether delayed delivery of the affordable dwellings or lots can be appropriately secured through a bond.

40.10.1.5 Alternative forms of contribution

a. Alternative forms of contribution to that specified in 40.9.1 (such as sale of lots or units to a Community Housing provider) should not result in a lesser contribution.

b. Transfer of lots or units should involve an appropriate retention mechanism and be subject to eligibility criteria (as specified in Schedule 40.1).

c. Alternative forms of contribution should only be considered where exceptional circumstances apply.

40.11 Schedule 40.1

Retention Mechanism

40.11.1.1 Where a financial contribution is not provided, and an alternative solution proposed, then the requirements in 40.9.1 must be met by the lot or floorspace being sold to an eligible buyer with a legally enforceable retention mechanism which is fair, transparent as to its intention and effect and registrable on the title of the property, including, but not limited to, a covenant supported by a memorandum of encumbrance registered on the certificate of title or consent notice under the RMA, that:

a. limits ownership and re-sale (including a future dwelling in the case of a vacant site subdivision) to:

(i) a registered community housing provider, Housing New Zealand or the council, or

(ii) an occupier who is approved by the council as meeting the eligibility criteria below, and

b. limits rent and resale to an eligible buyer based on a formula that ensures that the lot or dwelling remains affordable into the long term, including a future dwelling in the case of vacant site subdivision; and

c. prevents circumvention of the retention mechanism and provides for monitoring of the terms of the retention mechanism covenant or consent notice and the process should those terms be breached including where occupiers have defaulted on the mortgage and lenders seek to recover their interests in the property, and

d. is legally enforceable by the council in perpetuity through the means of an option to purchase in favour of the council at the price determined in accordance with (e), supported by a caveat.

e. at the time of resale, requires the reseller to:

   apply the same formula used to determine the price of the original purchase;

   allows the reseller to recover the cost of capital improvements made subsequent to purchase, approved by the council at a value determined by a registered valuer.

Eligibility

40.11.1.2 For the purposes of this Chapter an eligible buyer shall:

a. Be a household with a total income of no more than 120% of the District's median household income;

b. Whose members do not own or have interest in other property;

c. Reside permanently within the District during the majority of the year;

d. d. Will live at the address and not let or rent the unit to others; and

e. e. Have at least one member who is a New Zealand resident or citizen.

Affordability

40.11.1.3 Affordability means households who have an income of no more than 100% of the district's median household income and spend no more than 35 per cent of their gross income on rent or mortgage repayments, where:

a. median household income shall be determined by reference to Statistics New Zealand latest data, and as necessary, adjusted annually by the average wage inflation rate.

b. in the case of purchase, normal bank lending criteria shall apply, and shall at a minimum be based on a 10 per cent deposit, a 30 year loan term and the most recent 2 year fixed interest rate published by the Reserve Bank. Body Corporate or Resident Society fees may be included in the calculation of purchase costs;

c. In the case of the sale of a vacant site only, the site is sold at a price such that the resulting dwelling plus the site will meet the criteria set out above.

Legally privileged and confidential

Memo

To:	Queenstown Lakes District Council
From:	Nick Whittington and Mitchell East
Date:	7 July 2021
Subject:	**Affordable housing – alternative mechanisms**

Introduction

1 Queenstown-Lakes District Council is considering incorporating affordable housing provisions to its proposed district plan.

2 You have asked us to provide advice on whether there are any alternative mechanisms that QLDC could use to address housing affordability issues in its district. We have considered whether housing affordability could be addressed via general or targeted rates under the Local Government (Rating) Act 2002 (**Rating Act**), by development contributions under the Local Government Act 2002 (**LGA**), through bylaws, or through partnership arrangements with central government.

3 We consider that QLDC would face significant difficulties addressing the district's affordable housing issues through any of these alternative mechanisms.

QLDC proposal

4 The key aspects of QLDC's affordable housing proposal are:

(a) QLDC is proposing to introduce district plan provisions with the objective of providing "affordable housing for low to moderate income households in a way and at a rate that assists with providing for social and economic well-being and managing natural and physical resources".

(b) Subdivision or development that is proposed to contain residential lots or units and which provides an affordable housing contribution in accordance with certain standards is a permitted activity. Otherwise, subdivision or development is a discretionary activity for which a resource consent is required.

(c) There are standards proposed for calculating the amount of an affordable housing contribution. Speaking generally, they require:

(i) Residential subdivisions (depending on the size and location) to provide a monetary contribution, calculated as a percentage of the sale value, to QLDC, or to provide a percentage of the serviced lots to QLDC for no consideration.

MC

(ii) Developments that fall short of creating one new unit – in urban growth boundaries or other Residential Zones outside urban growth boundaries – to provide a monetary contribution (the lesser of two per cent of the estimated sale value or a fixed amount per square metre of the net increase in gross residential floorspace) to QLDC.

(iii) Developments that fall short of creating one new unit – in Settlement, Rural-Residential, Resort or Special Zones – to provide a monetary contribution (a fixed amount per square metre of the net increase in gross residential floorspace) to QLDC.

(iv) In some instances, residential subdivisions that have made a monetary contribution may have to provide a "top up" monetary contribution to QLDC for residential floorspace.

(d) The obligation to provide an affordable housing contribution to QLDC does not apply to certain types of specified development, such as any development that will provide more than 10 per cent of dwellings as social or affordable housing delivered by Kāinga Ora or any development that is a managed care unit in a rest home.

(e) Where a financial contribution is not provided and an alternative is not proposed then the requirement for an affordable housing contribution must be met by the lot or floorspace being to an eligible buyer with a legally enforceable retention mechanism "which is fair, transparent as to its intention and effect and registrable on the title of the property".

General or targeted rates

5 There are two key pieces of legislation relevant to QLDC's rating decisions. The LGA governs how local authorities make decisions, consult with their communities and manage their finances. The Rating Act determines liability for rates and prescribes a local authority's ability to set rates.

6 Rates are a particularly powerful local authority funding tool:

(a) The main purpose of the Rating Act is to promote the purpose of local government in the LGA by providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities.[1]

(b) Rates typically comprise around 60 per cent of local authorities' income. It is by far the most dominant revenue stream and the one that local authorities have the most control and certainty over.[2]

(c) The Rating Act also seeks to ensure that rates are set in accordance with decisions that are made in a transparent and consultative manner. However, it is very difficult for parties to challenge local authority rating decisions. Courts will not interfere with a local authority rating decision unless the decision is found to be unreasonable, irrational or perverse in defiance of logic, such that Parliament could not have contemplated the decision being made by an elected council.[3]

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1 Rating Act, s 3.

2 *Costs and Funding of Local Government Report* Morrison Low for Department of Internal Affairs (July 2018) at page 1.

3 *Wellington City Council v Woolworths New Zealand Ltd (No 2)* [1996] 2 NZLR 537 (CA).

7 That the provision of affordable and social housing is within the purpose of local government is supported by the Local Government (Community Wellbeing) Amendment Act 2019 which restored the promotion of "social, economic, environment, and cultural wellbeing" to the statutory purpose of local government.

8 We consider that QLDC could use a proportion of its general rate to address affordable housing issues in its district. For example:

(a) QLDC could fund the provision of affordable housing in its district in the same way, for example, that some councils use rates revenue to purchase or maintain pensioner housing. However, given the shortfall of affordable housing in Queenstown, this would require a significant level of investment.

(b) As we understand the problem, there is sufficient residential land available for development within the district but the development community is not using that land to build houses in the affordable bracket. Rather, larger and more expensive dwellings are more profitable. QLDC could use a proportion of its general rates to build, or to subsidise developers through contracts to build, housing in the affordable price bracket to ensure that housing typologies that meet the needs of the district are built.

9 The Morrison Low Report into local authority funding identified that there are a range of significant challenges facing local authorities which are driving rates increases.[4] The report identified grave affordability issues with rates for some population groups. Against this background an increase in general rates to fund the provision of affordable housing (or compensate developers for lost profit on affordable housing) may not be palatable politically.

10 QLDC also has the power to set a targeted rate for activities or groups of activities if those activities or groups of activities are identified in its funding impact statement as the activities or groups of activities for which the targeted rate is to be set. Targeted rates may be set differentially for different categories of rateable land under s 17 of the Rating Act. The categories of rateable land are defined in terms of matters listed in Schedule 2 of the Rating Act. These relate to various characteristics of the land, the use to which land is put, and how it may be used under the RMA.[5]

11 We think that there would be additional difficulties with to levying a targeted rate to address affordable housing. It is unclear to us to whom QLDC would apply a targeted rate (ie to what land and how would this relate to the Schedule 2 matters). It seems to us that applying a targeted rate to residential land would not assist housing affordability and the costs would likely be passed on by developers. Alternatively, QLDC could seek to apply a targeted rate to industrial and commercial land on the basis that it generates employment, which it requires people to meet, and there is a need for housing to be affordable for those people.

12 To have either a general or targeted rate QLDC would need to identify the activity that the rates revenue is funding in the long term plan.

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4 *Costs and Funding of Local Government Report* Morrison Low for Department of Internal Affairs (July 2018). Department of Internal Affairs (the Government's lead advisor on the Productivity Commission Review) commissioned Morrison Low to provide a picture of local government finances now and into the future.

5 These are: the use to which the land is put, the activities that are permitted, controlled, or discretionary for the area in which the land is, the area of land within each rating unit, the provision or availability to the land of a service provided by, or on behalf of, the local authority, where the land is situated, the annual value of the land, the capital value of the land, the land value of the land.

Development contributions

13 We have considered whether QLDC could use funding obtained from development contributions to provide or subsidise affordable housing in its district.

14 The purpose of development contributions is to enable territorial authorities to recover from those persons undertaking development a fair, equitable and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term.[6] A development contribution must be used for, or towards, the capital expenditure of the reserve, network infrastructure, or community infrastructure for which the contribution was required.[7]

15 Network infrastructure means the provision of roads and other transport, water, wastewater and stormwater collection and management.[8] Community infrastructure means land, or development assets on land, owned or controlled by the territorial authority for the purpose of providing public amenities, and includes land that the territorial authority will acquire for that purpose. [9]

16 We do not consider that affordable housing comes within the definitions of community infrastructure or network infrastructure. Accordingly QLDC has no power to require development contributions to address housing affordability issues in its district.

National Policy Statement on Urban Development 2020

17 Strictly speaking, the NPSUD is not an alternative mechanism for addressing affordable housing issues. As we set out below, QLDC is legally required to give effect to the NPSUD in preparing and changing its district plan. The NPSUD is designed to improve responsiveness and competitiveness of land development markets. It requires local authorities to open up development capacity to allow more homes to be built in response to demand.

18 There are a number of provisions in the NPSUD that, in some way, deal with affordable housing. Indeed, objectives 1 and 2 of the NPSUD directly (and indirectly) refer to affordable housing:

(a) **Objective 1**: New Zealand has well-functioning urban environments that enable all people and communities to provide for their social, economic, and cultural wellbeing, and for their health and safety, now and into the future.

(b) **Objective 2**: Planning decisions improve housing affordability by supporting competitive land and development markets.

19 "Well-functioning urban environments" is defined in Policy 1 as including "urban environments that, as a minimum … have or enable a variety of homes that meet the needs, in terms of type, price, and location, of different households".

20 In addition, subpart 5 of the NPSUD requires certain local authorities to prepare a Housing and Business Development Capacity Assessment (**HBA**) every three years. The purpose of an HBA, among other things, is to provide information on the demand and supply of housing and of business land in the relevant urban environment, and the impact of planning and infrastructure decisions of the relevant local authorities on that demand and supply. Every

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6 LGA 2002, s 197AA.

7 LGA 2002, s 204.

8 LGA 2002, s 197.

9 LGA 2002, s 197.

HBA must include analysis of how the relevant local authority's planning decisions and provision of infrastructure affects the affordability and competitiveness of the local housing market. In effect, the HBA provides the evidence on which local authorities are expected to make planning decisions about affordable housing in their districts.

21 A district plan must "give effect to" a national policy statement, including the NPSUD.[10] The Supreme Court has said that "give effect to" simply means "implement".[11] The phrase is a "strong directive, creating a firm obligation on the part of those subject to it".[12] The effect of this requirement means it is not open to QLDC to simply ignore the terms of the NPSUD, particularly as the NPSUD is expressed in directive terms.

22 Our view is that the NPSUD appears to expressly authorise, and perhaps even require, a planning approach that ensures houses are built with certain typology or price (ie affordable) characteristics and which target different household needs. Inclusionary zoning can be used as a tool to provide homes of different types and prices. So inclusionary zoning can be seen as a mechanism for giving effect to the NPSUD.

Bylaws

23 Other jurisdictions have regulated affordable housing policies by implementing bylaws. We have considered whether New Zealand legislation would enable QLDC to enact an affordable housing bylaw.

24 A number of statutes in New Zealand enable local authorities to make local bylaws in certain circumstances to regulate problems within certain topics or matters. Any new bylaw must be within the scope of the empowering provisions that allow the Council to make the bylaw.

25 We do not consider that a bylaw regulating the provision of affordable housing would fit within any of the existing topics or matters for which bylaws are allowed.

Partnership with central government

26 We have also considered whether QLDC may be able to address affordable housing issues by partnering with central government or iwi to provide affordable houses in its district.

27 The Local Government (Community Wellbeing) Amendment Act 2019 restored the promotion of "social, economic, environmental, and cultural well-being of communities" to the purpose of local government. That purpose also requires a focus on intergenerational interests as it refers to promoting well-being "in the present and for the future".

28 Shortly after the introduction of the 2019 Amendment Act, the then Minister of Local Government released a Cabinet Paper titled, "Working with Local Government on Community Well-being".[13] That Paper invited the Minister, working collaboratively with local government, to explore policy, regulatory and non-regulatory options that ensure local authorities and communities set specific priorities for intergenerational well-being and increase the role of community well-being priorities in guiding local authority planning and decision making.

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10 Resource Management Act 1991, s 75(3)(a).

11 *Environmental Defence Society Inc v The New Zealand King Salmon Co Ltd* [2014] NZSC 38, [2014] 1 NZLR 593

12 At [77].

13 Cabinet Office Paper "Working with Local Government on Community Well-being" (19 August 2019) CAB 19/97.

29 There has been little in the way of further development following the Cabinet Paper. By way of example, the Department of Internal Affairs' central-local government partnerships team has not provided any additional policy developments on the topic.

30 We suggest that QLDC continues to keep a watching brief on central government policy and partnership opportunities but we doubt that this will be an option before QLDC needs to decide whether to progress the affordable housing provisions.

Conclusion

31 Of these identified alternatives, only a rating approach realistically could be implemented. The direction provided by the NPSUD, in our view, makes taking an inclusionary zoning approach to the issue the best of all options.

The economic case for Inclusionary Zoning in QLDC

An important piece of the puzzle

Report for community consultation

21 October 2020

SENSE PARTNERS

DATA LOGIC ACTION

NOT QLDC POLICY – CONSULTATION VERSION - JULY 2021

Key findings

- QLDC asked Sense Partners to scope the economic costs and benefits of implementing an Inclusionary Zoning (IZ) policy.
- There is pressing need for affordable housing in the region. Inclusionary zoning aims to bring affordable housing to unaffordable areas. This has significant wider economic, social and wellbeing benefits, by reducing extreme housing stress for a cohort of the population.
- Our analysis of inclusionary zoning in QLDC so far show no perceptible negative impact on housing supply, house prices, house size or quality – the main concerns raised in international literature.
- Housing affordability is a $1b problem in QLDC. That is roughly how much the region's incomes would need to increase by to make its house prices and rents as affordable as the national level (which itself is not very affordable).
- Housing affordability is a contributing factor in QLDC's very high labour turnover rate. We estimate that the higher labour turnover rate is costing businesses and the local economy $105m-$200m a year. For each worker we can make more secure and stable in their home, community and work, the economic benefit is $55,000 - $110-000.
- We estimate up to 1,000 IZ homes may be delivered over the next 30 years. We take a conservative approach in valuing the economic benefits.
    - The largest benefit is from improved labour market outcomes and stability (reduced turnover), which adds $27m-$53m of economic benefits, discounted over 30 years at 6%.
    - There are modest positive economic benefits from improved mental health, education, and household bills. There are larger associated wellbeing benefits, but they tend to inflate benefit estimates but are a source of contention. There are also potential benefits from reduced commute times for some households, we have left that for our detailed s32 analysis.
    - If we conservatively estimate a permanent 1% increase in house prices in our low (bad) scenario, even though we found no evidence of IZ houses increasing neighbouring house prices, then existing homeowners would be better off and future homeowners worse off.
    - In our worst case, the total economic benefit of the IZ policy would be $3m over 30 years discounted at 6%.
    - In our conservative best case, the total economic benefit of the IZ policy would be $101m.

- We have not presented total benefit case in this analysis in this report, which includes wider wellbeing benefits (not just the economic and direct social benefits). Which we estimate may be as high as $170m.

Contents

1. Proposed policy

QLDC is proposing new developments are subject to Inclusionary Zoning provision, which have been used in the past:

- Historical Plan Changes established a voluntary contribution rate of 5% of lots transferred to the Council.
- Special Housing Areas initially required a 5% affordable housing contribution (under the Housing Accords and Special Housing Areas Act 2013).
- This was increased to 10% in 2018. QLDC data shows that the contribution is based on lots transferred to the Council (although some SHAs allowed for contribution of cash, lots or lots and house packages).

So, the policy is not new. Rather it will be formalised to a compulsory and applied widely. The policy needs to apply broadly under the Resource Management Act, but with due consideration for commercial feasibility for different types of developments (greenfield vs brownfield for example).

Past application was mainly applied on land that was up-zoned from rural to urban land use, which significantly increased economic value of the land and inclusionary provisions only had a modest impact on financial returns.

A more widely applied policy including on existing residential use land would not have the same zoning uplift to compensate. So, the Inclusionary Zoning policy needs to be more nuanced. If the requirement is set too high, it will make some projects unfeasible and delay supply. Set too low, and there will not be enough affordable housing.

The following is proposed for initial s32 assessment (which is likely to be refined):

Development type	District plan provision	Notes
Large greenfield residential subdivision on land within urban growth boundary, within settlement or residential zone, e.g. more than 20 lots create	5% of lots transferred to the Council at no cost. Option via consent to provide equivalent off-site or in the form of a monetary contribution	Preference for lots within the development is to support mixed communities across the district
Smaller residential subdivision, 3 to 19 lots, on land within urban growth boundary, settlement, or residential zone	5% of the value of the lots created to be provided as a monetary contribution to the Council. Value to be based on valuer's report on likely sale value.	Contribution in form of money to be used for affordable housing. Cut off of 2 lot subdivision recognises potential for smaller development to add to housing supply options

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Rural Residential subdivision, Resort (Special) zone subdivision of more than 2 lots	1% of value of lots created to be paid as a contribution	Contribution level recognises higher value of lots created. Contribution reflects that development does generated indirect demand for affordable housing
Residential development involving more than 2 dwelling units. Includes Residential Visitor Accommodation and independent living units in retirement villages Exempt: • Small units – less than 40 square metres • Boarding houses, worker accommodation • Managed care facilities. • Developments by Kainga Ora / Community Housing providers	2% of the value of the gross floor space created to be provided as a monetary contribution. Option for larger developments (e.g. more than 20 units) to provide contribution in the form of a unit or units, subject to consent.	Aimed at brownfield development. Lower rate reflects feasibility issues. To avoid double dipping, if built on a lot for which a contribution has already been made a subdivision stage, then no contribution would apply (i.e. a credit is recognised). Certain forms of residential development would be exempted

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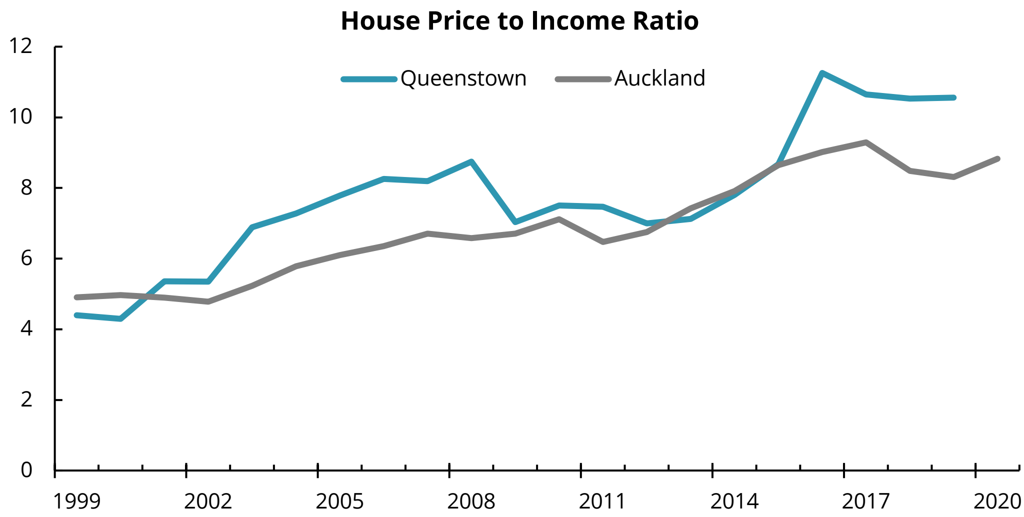
2. Local housing context

House prices have increased rapidly in New Zealand since the early 2000s, both in absolute terms and relative to incomes (which affects the ability to save the required deposit, and to repay the mortgage). Rents have also become less affordable over time.

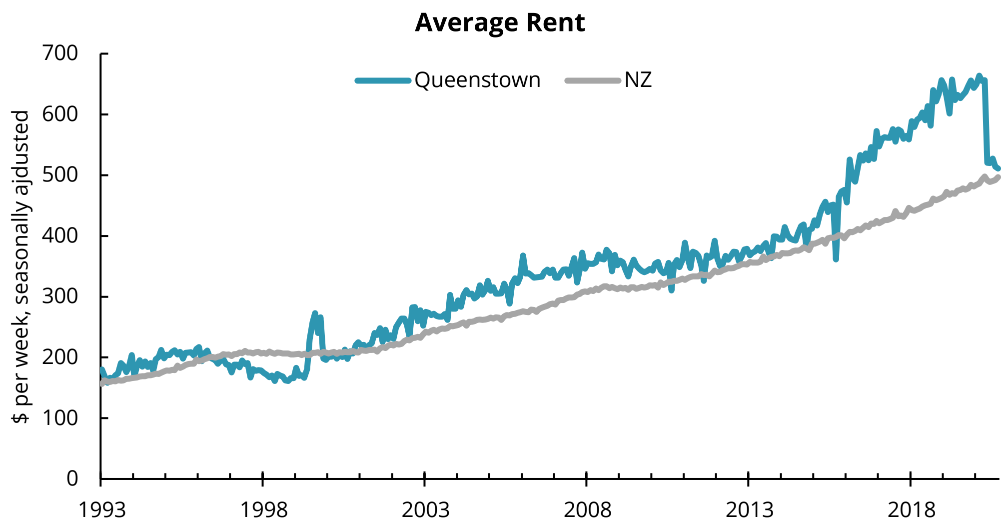
QLDC has been one of the hotspots of house price and population growth. It has experienced very strong population growth, driven by a desire to live in the region, invest in the region, as well as a booming tourism industry (until a sudden and likely temporary stop due to the Covid-19 pandemic).

FIGURE 1: HOUSE PRICES HAVE INCREASED RAPIDLY SINCE THE EARLY 2000S



Source: Statistics New Zealand, Sense Partners

FIGURE 2: RENTS HAD RISEN VERY SHARPLY IN RECENT YEARS, REFLECTING A SHORTAGE OF HOUSING

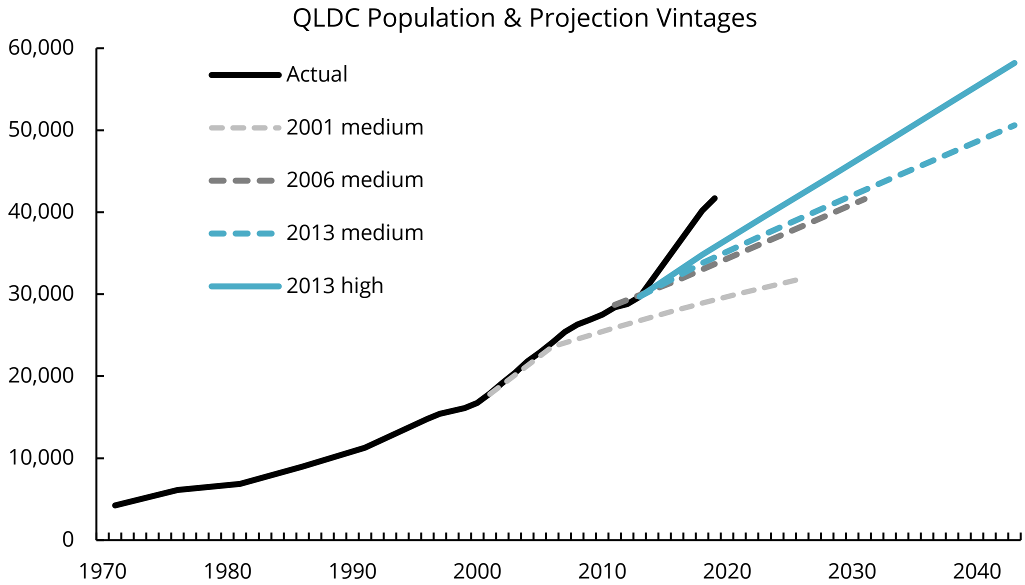


Source: Statistics New Zealand, Sense Partners

2.1. Housing demand

A Housing Needs Assessment was commissioned by QLDC in November 2019. The assessment found that housing demand will grow significantly over coming decades. Queenstown's population has grown rapidly since the 1970s (Figure 3) and has average 5% a year over the last 30 years.

FIGURE 3: POPULATION GROWTH HAS OUTSTRIPPED PROJECTIONS IN THE PAST DECADE



Source: Statistics New Zealand, Sense Partners

Population growth has also been stronger than projections over the last decade. For example, the latest estimate of the population in 2019 was 41,700, 42% higher than the 2001 census-based projections, and 21% higher than the high variant of the 2013 census-based projections.

In recent years, population growth has been boosted by very strong inward migration, of young people from overseas, and older people (over 60) from other parts of New Zealand.

There are costs in not planning for enough growth – as it leads to capacity constraints in the economy. Because land supply is not perfectly elastic, rapid increases in population growth and attendant housing demand lead to increasing rents, increasing house prices, overcrowding, and local workers and residents being displaced.

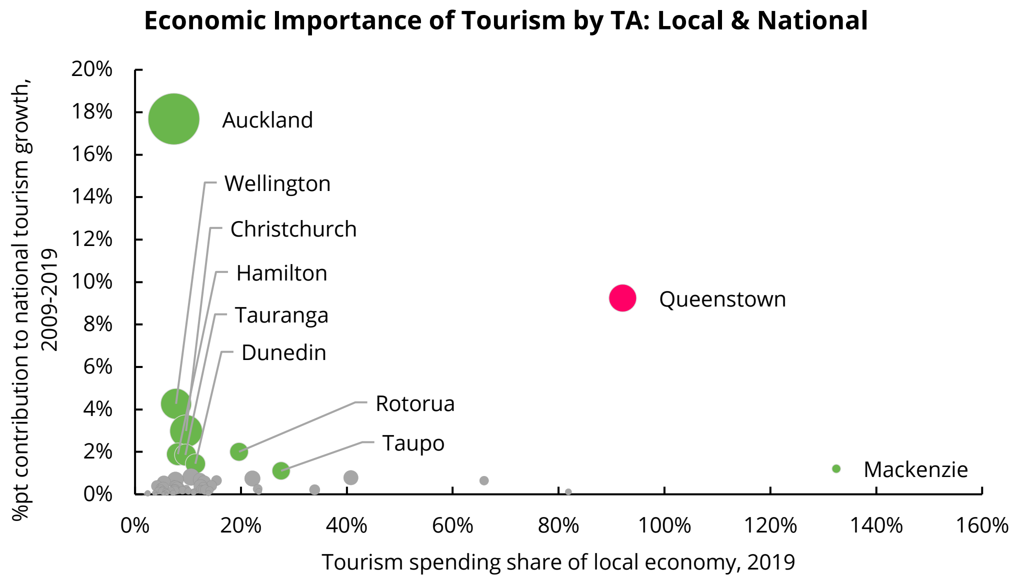
But there is also a cost in over-accommodating for growth if it does not materialise. Growth infrastructure is expensive and is often reliant on future population and economic growth to pay for it.

QLDC projections[1] take a conservative approach to forecast population growth, averaging 2.2% a year to 2051, compared to 5%pa in the last 30 years and 5.2%pa in the last decade. However, if population growth surprises on the upside, there is ample feasible capacity in QLDC. A 2017 Housing Capacity Assessment[2] found commercially feasible capacity for an additional 23,900 dwellings within its UGBs and 24,200 dwellings within the total urban environment in the medium-term (to 2026).

Uncertain impact of Covid-19

The Covid-19 global pandemic has had a significant impact on the global economy and particularly international tourism. The New Zealand economy, and the tourism dependent economies of QLDC and surrounds. The IATA forecast global passenger traffic (revenue passenger kilometres) will not return to pre-COVID levels until 2024. This means there is good cause to be cautious in projecting population over the next few years, but history suggests we should also plan for long term growth that may surprise on the upside.

FIGURE 4: AUCKLAND HAS BEEN THE LARGEST CONTRIBUTOR TO TOURISM GROWTH IN THE LAST DECADE



Source: MBIE, Statistics NZ, Sense Partners

[1] https://www.qldc.govt.nz/community/population-and-demand 2020
[2] Market Economics (2018)

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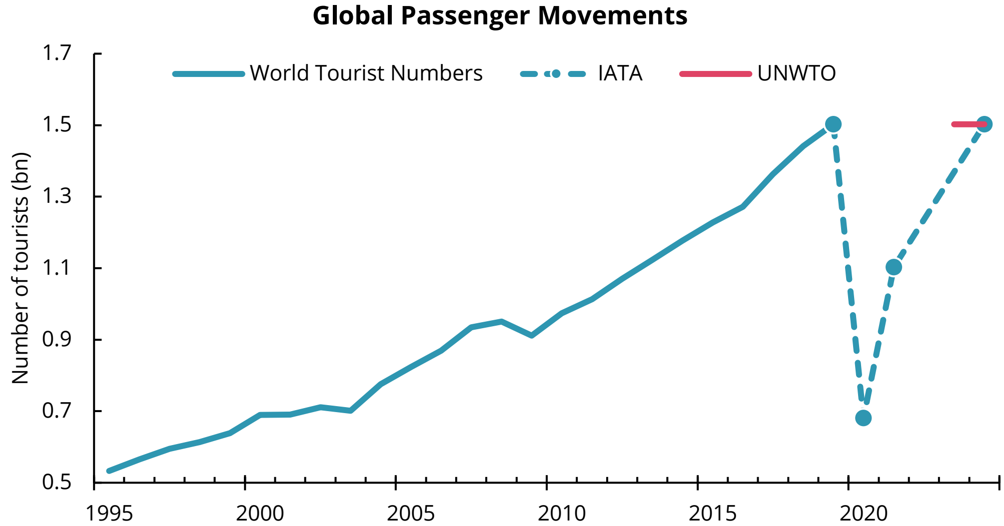
FIGURE 5: GLOBAL TRAVEL MAY NOT RECOVER TO 2019 LEVELS UNTIL 2024



Source: UNWTO, IATA, World Bank, Sense Partners

2.2. Housing supply

House building has surged in recent years (Figure 6). However, the population has grown even faster. Housing building needs to remain high to meet projected demand, as well as current unmet demand (seen in affordability pressures, increased congestion due to commuting workers, and crowding for example).

In the 2018 Census 730 households reported needing more bedrooms in QLDC (Figure 7). This is consistent with our estimates of underlying housing demand and actual supply, which show that demand has outstripped supply from 2014 to 2018 (Figure 7).

Those with affordability constraints are crowding up. This is because the supply is not uniform across the housing continuum. Our analysis shows that while the housing stock has grown rapidly in recent years, the supply of rental housing has not. In the 5 years to 2018, the housing stock grew by around 775 dwellings a year. The increase in the rental stock was only around 185 a year over the same period, or 25% of the dwelling stock growth.

An Auckland evaluation[3] of Special Housing Areas found that the policy boosted supply but did not improve affordability. QLDC also benefitted from the Housing Accord and Special Housing Area (HA-SHA) legislation, which had targeted 1,300 homes over three years (
Figure 9). Targets changed over the years, but the approvals of projects appeared to largely keep pace with targets (
Figure 10).

[3] Fernandez (2019)

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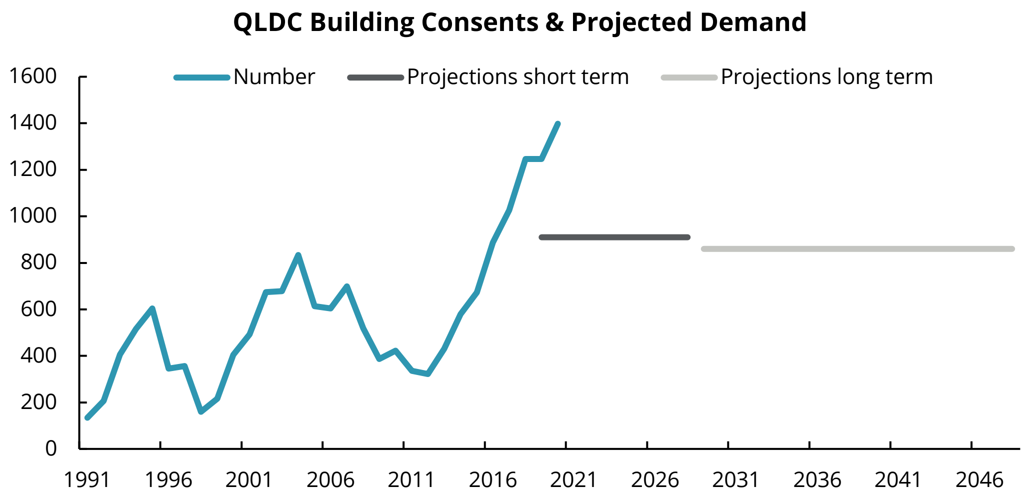
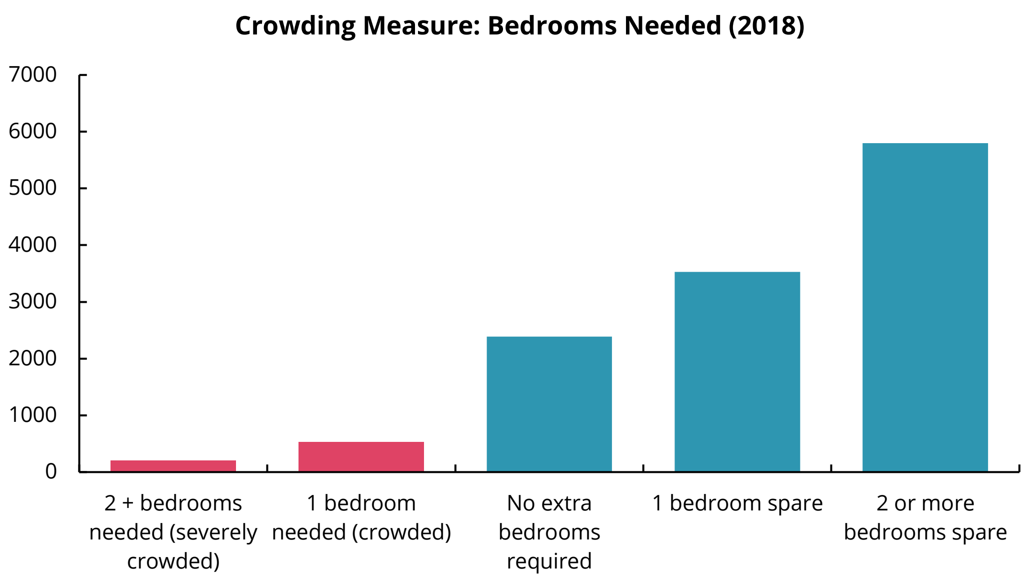
QLDC population projections[4] suggest recent supply trends will continue. However, recent experience shows that overall housing supply may not increase affordable housing supply for some time. This highlights the need for targeted policies such as Inclusionary Zoning to encourage affordable housing supply (which QLDC has been using since 2004 and is discussed later in the report).

FIGURE 6: SURGING CONSENTS IN RECENT YEARS IS WELCOME



Source: Statistics NZ, QLDC, Sense Partners

FIGURE 7: AROUND 730 HOUSEHOLDS WERE OVERCROWDED



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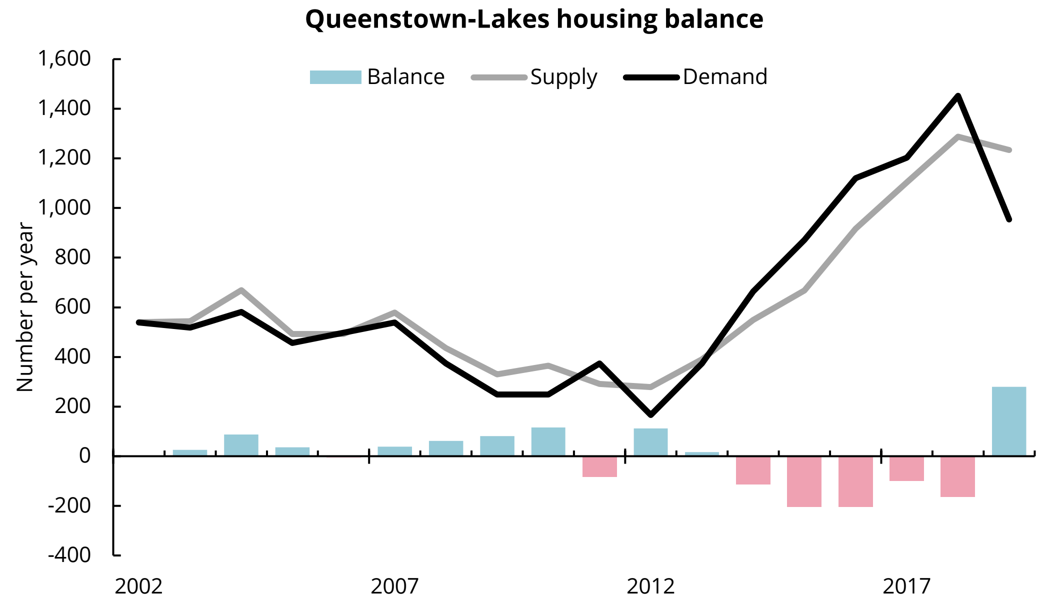
[4] https://www.qldc.govt.nz/community/population-and-demand 2020

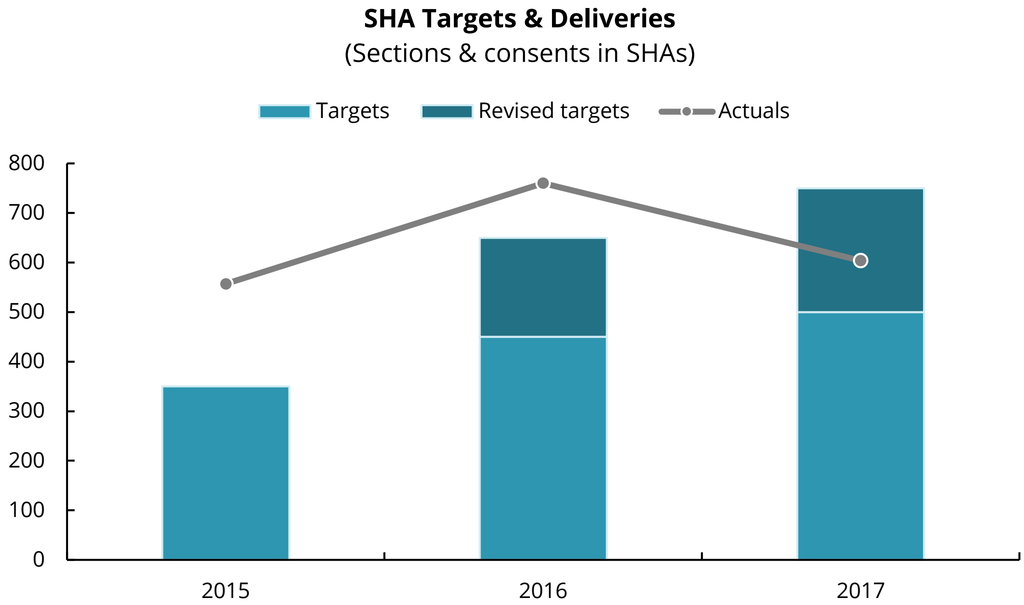
Source: Statistics NZ, Sense Partners

Figure 8: House building has surged in recent years, but demand has grown even faster



Source: Statistics NZ, Sense Partners

FIGURE 9: SHA TARGETS WERE MET…



Source: MHUD, QLDC, Sense Partners

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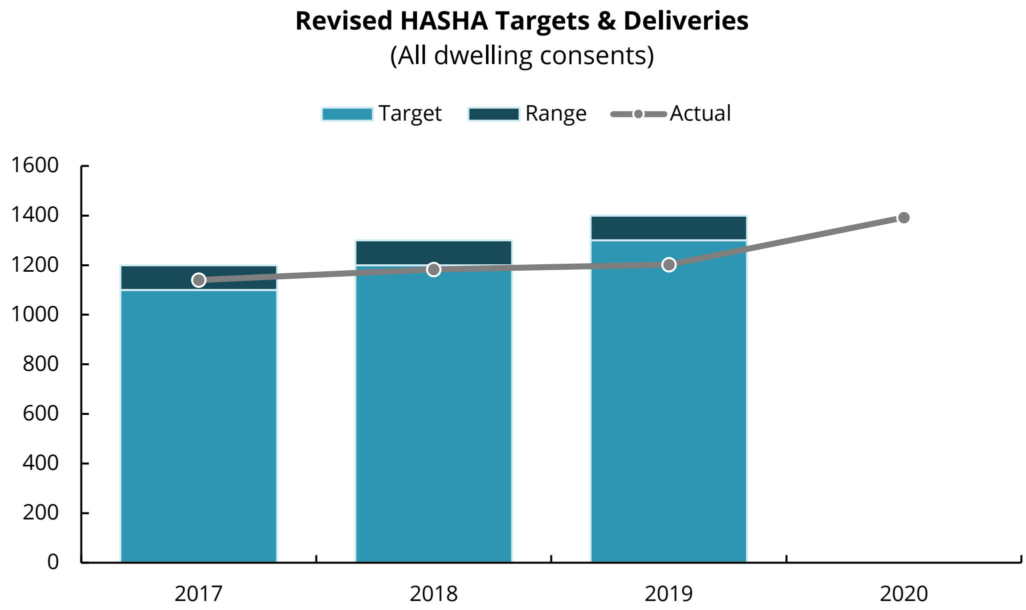
FIGURE 10: …AND LATER CHANGED TARGETS



Source: MHUD, QLDC, Statistics NZ, Sense Partners

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3. Housing affordability and its consequences

3.1. A $1b problem for the Queenstown Lakes District

Housing is extremely unaffordable in QLDC. According to interest.co.nz for example, the median house price in Jan 2020 was 14.3 times median household incomes, compared to 6.7 times nationally. Similarly, the average rent in QLDC is 45% of income, compared to 27% nationally.

To understand the scale of the housing costs, we can think about how much incomes locally would have to rise to match, say the national, housing cost levels. There can be plenty of arguments about what should be the most comparable region or number, but this exercise helps to illustrate the scale of the issue.

If the cost of housing remained the same and local incomes went up to match national levels, then incomes would have to rise by 68% (to restore rental affordability) to 115% (to restore housing affordability). Cumulatively, the wage bill in QLDC would need to rise by $817m to $1,392m. Roughly, the scale of the housing affordability issue in QLDC is $1b.

A survey of renters in 2020 found that renters are more likely to be older, living with a partner, and children. The consequences of insecure housing are even greater for families than more mobile younger cohorts.

This is illustrated by the waitlist for the Queenstown Lakes Community Housing Trust (QLCHT). It shows those wanting help on housing are likely to work in relatively low-income jobs, and those with children (both single and two parent families) were in high need.

FIGURE 11: WAITLIST OF QLHT HOUSING, NUMBER OF HOUSEHOLDS BY COMPOSITION

QLCHT waitlist by composition and income

Share of households, %

Adults	1				2				Total
Children	0	1	2	3+	0	1	2	3+	
Income ($)									
Under 30,000	4%	2%	1%	1%	1%	0%	0%	0%	8%
30,001-50,000	10%	5%	3%	1%	1%	3%	1%	0%	24%
50,001-80,000	12%	4%	2%	1%	6%	6%	7%	2%	40%
80,001-100,000	1%	0%	0%	0%	9%	4%	4%	1%	20%
100,001+	0%	0%	0%	0%	1%	2%	3%	2%	8%
Total	27%	11%	6%	3%	18%	15%	15%	6%	100%

Source: QLCHT

3.2. Impact on labour market

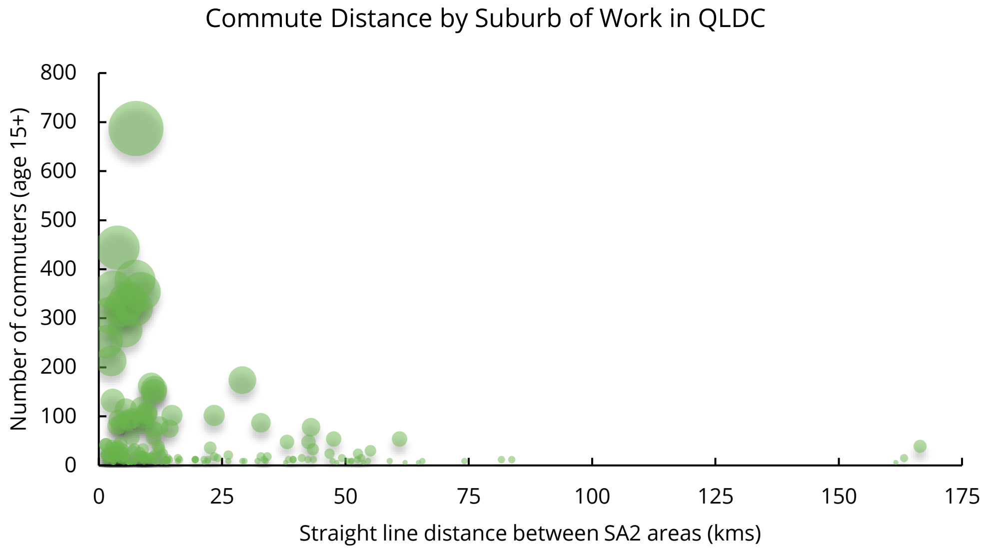
The cost of housing is impacting on the availability of worker, the quality of life of workers, often pushing them further away from their place of work and increasing their travel costs, increasing emissions and congestion. OECD's illustrative modelling showed that improved housing supply would increase labour productivity growth by 0.5% a year[5].

One consequence of unaffordable is housing is higher labour turnover and labour shortages. Businesses report finding it harder to retain and attract labour. Survey of Queenstown Chamber members for example[6] show that workforce issues (finding workers and worker accommodation) are high on their priority list.

QLDC's largest sector is retail and accommodation, accounting for 30% of all jobs, but just under 20% of QLDC residents work in the sector. Many are commuting in from further away.

We can see this reflected in Census commuter data, which shows more people travelling further distances to work over the last three censuses. For example, the number of commuters from Frankton and Lake Hayes to Central Queenstown – which creates urban traffic congestion – has more than doubled between the 2006 and 2018 censuses, from around 460 people to 950. The number of people commuting from further away, such as Cromwell and Wanaka are also growing.

FIGURE 12: MOST COMMUTES ARE SHORT, BUT AROUND 300 LIVE MORE THAN 50KM AWAY FROM THEIR WORK



Each circle represents commute suburb pair (eg Frankton to Queenstown Central)
Circle size = number of commuters

[5] Baker (2019)
[6] https://www.queenstownchamber.org.nz/business-connect/news-advocacy/news/membership-survey-results-2019/

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Source: Statistics NZ, Sense Partners

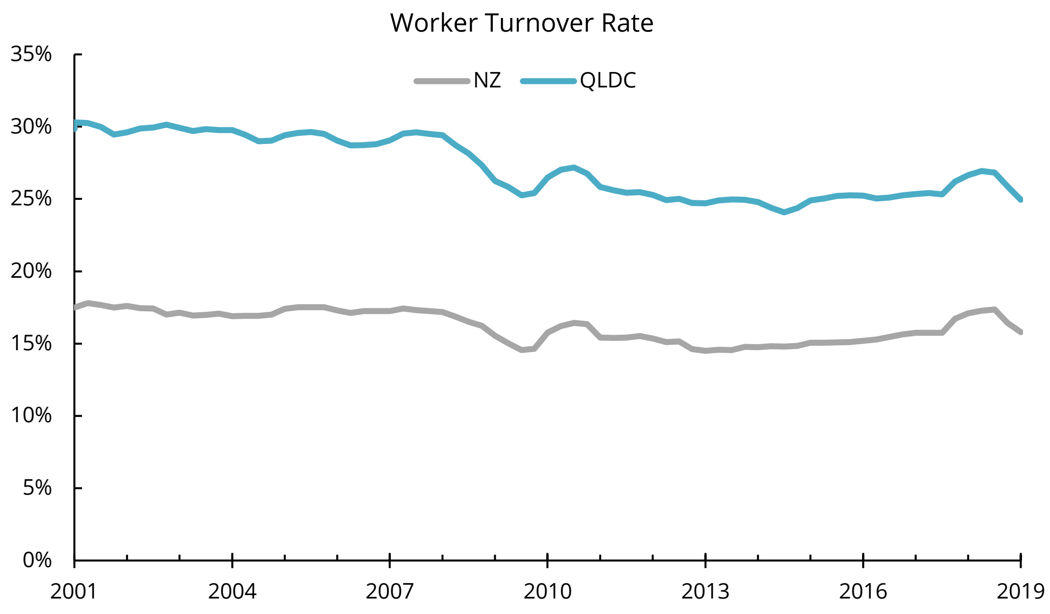
We estimate around 300 people have a commute of more than 50km each way[7]. Commuter data shows people prefer to live close to work (Figure 12), commute distances are increasing with attendant increase in traffic congestion, and associated economic and environmental costs.

Housing availability and choice are important determinants of labour supply, cost, and turnover. QLDC's tourism and service-based economy is labour intensive, but labour turnover, some of which is linked to worker accommodation, have direct economic costs.

This economic cost to business is visible in higher labour turnover in QLDC. Employee turnover is a real cost to business. It increases the cost of recruitment, training, and productivity loss. Business tools and international literature suggests turnover costs may be very high. For tourism intensive industries the cost of turnover is around 25% of an employee's annual salary. An US study found typical cost of ~20%[8].

The labour turnover rate was 25% in QLDC in 2019, and 16% nationally[9]. A third of the difference was due to industry mix in QLDC (it has more employment in higher turnover industries like accommodation, and food and beverage services). But the remaining two-thirds (or 6% labour turnover) is due to other local factors, including a large number of short-term visiting workers from overseas. Small and remote communities tend to experience higher labour turnover. It is not a uniquely QLDC issue, but one that has real economic costs.

FIGURE 13: LABOUR TURNOVER IN QLDC IS MUCH HIGHER THAN THE NATIONAL AVERAGE



[7] We calculated a straight-line distance between suburbs. This is likely to underestimate actual travel distance due to transport networks.
[8] Glynn (2012)
[9] Statistics New Zealand Linked Employer Employee Database (LEED)

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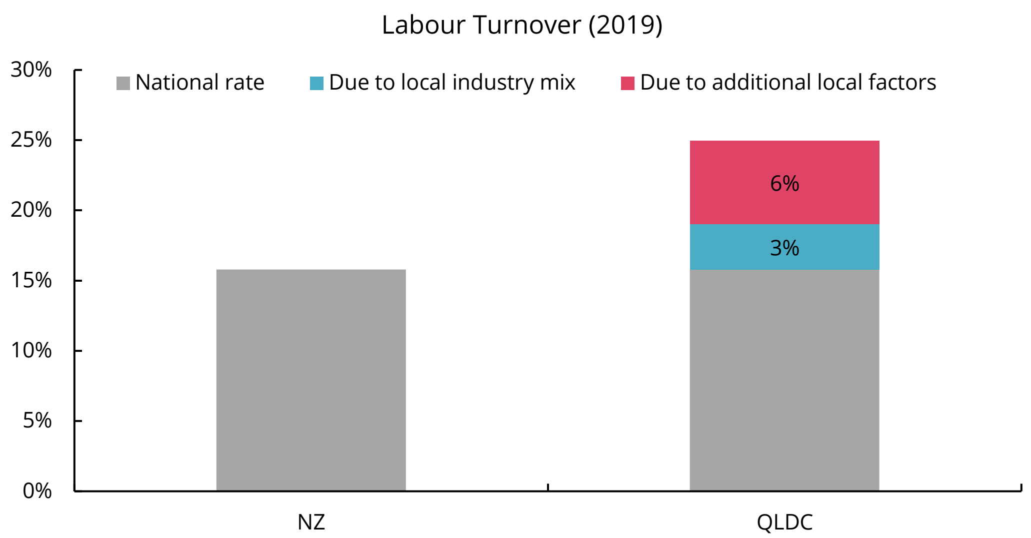
Source: Statistics NZ, Sense Partners

We estimate that high labour turnover has significant potential costs to the local economy:

- We estimate this additional labour turnover adds $20m-$25m per year to labour costs of doing business in QLDC, compared to the national average.
- Similarly, we also found that higher labour turnover industries tended to have lower profits. The 6% excess turnover in QLDC would equate to return on assets beings 5%-10% lower, or worth $85m-$175m a year.
- We estimate much higher labour turnover in QLDC is imposing economic costs worth $105m-$200m a year (3%-6% of QLDC's GDP).
- As a rough rule of thumb, we estimate every worker not unnecessarily moving jobs is worth $55,000-$110,000 to the local economy.
- Research[10] shows reduced turnover of work and living arrangements also have wider benefits social and wellbeing benefits, particularly for work prospects and education outcomes.

FIGURE 14: ONLY A THIRD OF QLDC'S HIGHER LABOUR TURNOVER CAN BE EXPLAINED BY ECONOMIC MAKE-UP



Source: Statistics NZ, Sense Partners

[10] Treasury (2018)

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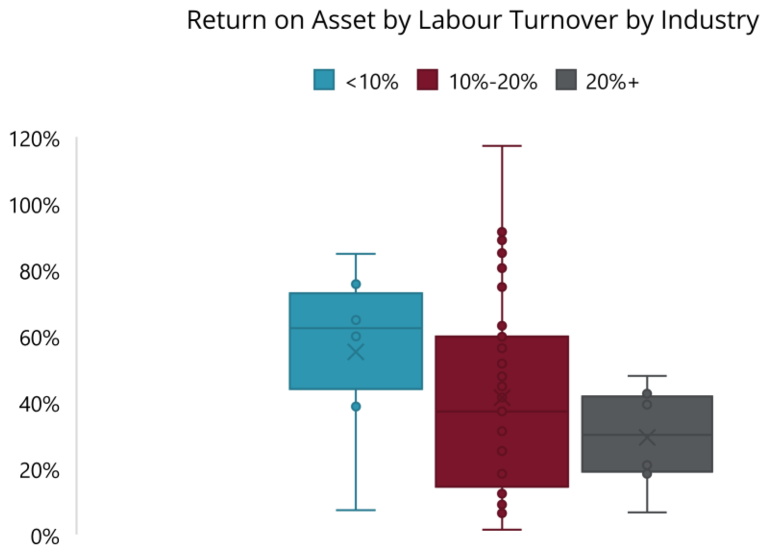
FIGURE 15: HIGH LABOUR TURNOVER INDUSTRIES TEND TO EXPERIENCE LOWER PROFITABILITY



Source: Statistics NZ, Sense Partners

4. Inclusionary Zoning as part of the solution

QLDC is afflicted by unaffordable housing. There is no one policy tool that can alleviate this. However, IZ is a targeted policy that deliberately produces affordable housing, although further support is often required to make houses affordable to those on very low incomes. The point of these policies is usually to increase the share of affordable housing, and to break up socioeconomic segregation of a city[11].

Planning system tools such as IZ work best when part of a wide whole-of-government strategy to address the continuum of housing needs[12]. An OECD report in 2019[13] suggested government delivery of affordable housing through KiwiBuild should be re-focused towards enabling the supply of land to developers, supporting development of affordable rental housing, and further expanding social housing in areas facing shortages. They noted that in Germany, the supply of affordable housing is increased through public subsidies in conjunction with inclusionary zoning, with rental housing generally targeted. The key messages are:

- The most successful applications of IZ are in places where the mechanism is simple to administer, there is an established delivery mechanism and the policy applied widely.
- Inclusionary zoning helps to supply lower value/affordable homes into supply. Without this, supply of this type of housing falls dramatically.
- IZ is not common in Australasia, but widely used in USA (more than 500 cities), UK and other parts of the world with varying degrees of success.
- In recent decades South Australia (around 5,500 units over a decade to 2015) and Sydney (around 2,000 units over a decade from 2009) have both used inclusionary zoning. Neither are sufficient to deal with housing stresses for all.
- There is some risk of reducing incentives for overall supply, but because IZ tends to be used in very expensive markets, good quality quantitative studies find no impact on overall supply. But the published evidence is mixed, although of varying quality and scope (many do not include wider social benefits).
- Inclusionary housing practice in both the US and UK reveals that schemes gain traction over time. Private developers accept inclusionary requirements *when they are known in advance and levied in a consistent way*.
- Even with IZ, low income families often need additional support to afford homes.

[11] Mock (2016)
[12] Gurran et al (2018).
[13] Baker (2019)

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- IZ on its own cannot be the answer. As other mechanisms required to ensure housing supply is responsive to demand across the continuum of housing need.

Experience in QLDC to date, and internationally suggest such a policy is a complement to wider land use policies to increase housing supply. But left to their own devices, general housing supply may not provide sufficient *affordable* housing supply for some time.

QLDC began using IZ policy to create a stock of retained affordable homes in 2004. Inclusionary Zoning policy has changed in QLDC over time. It started with the agreement of stakeholder deeds between developers and the Council that dedicated around 5% of the residential land for affordable housing as part of the plan change approval process of rezoning rural land to residential subdivision. This rezoning process was further memorialised through a set of objectives, policies, and rules into the District Plan in 2013, and then further used through the HA-SHA (2013) Act.

The QLDC experience so far has been favourable against commonly cited issues internationally. The international literature takes a nuanced view on what successful IZ policy looks like. Success is often defined in terms of the impact on various channels[14]:

1. Create more affordable units. The international literature shows that IZ policy can increase affordable housing supply, but it can lag overall supply.

   1.1. QLDC shares a commonly found issue, that the supply of affordable housing lags[15], but increases over time. We have seen that while housing supply has accelerated, the supply of rental stock has not kept paces (only 25% of the increase in the dwelling stock in the five years to 2018 were rentals).

   1.2. IZ policies vary by location, as do their scale. In South Australia, the policy contributed 15% of total supply in the decade to 2015. In Sydney about 1%[12].

   1.3. We estimate the proposed IZ policy will account for up to 1,000 units, or close to 6% of total new supply through to 2051. Although demand is likely to be around 2,000 units, meaning IZ needs to be a complement to wider housing supply delivery.

2. Retention increases wider social and economic benefits. The impact is higher the longer they are retained. Generally, IZ homes are retained for 30 years or more, but again the policies are heterogenous across jurisdictions.

   2.1. The proposed model specifically includes a retention mechanism to ensure the social and economic benefits are maximised.

3. May impact on housing supply. The evidence of IZ policy impact on housing supply is mixed. High quality studies have not found large negative effects on supply. Large cross jurisdiction studies have generally found no effect, or marginal effect on housing supply relative to non-IZ locations. Mitigation tools can reduce the impact, for example through

[14] Ramakrishnan et al (2019).
[15] Norris (2007)

density bonuses, reductions in height, setback, parking and other requirements, and fast-tracked approvals.

3.1. Some international studies found housing supply slowed due to Inclusionary Zoning policies, but that depended significantly on the stringency of the inclusionary requirements[16].

3.1.1. However, when QLDC adopted more stringent Inclusionary Zoning requirements in 2013 (increasing them from 5% to 10% in SHAs) housing supply improved, both in levels and relative to population.

3.1.2. There are other drivers, but it does not appear that Inclusionary Zoning policy had a discernible negative impact on housing supply.

4. Some international studies have also shown Inclusionary Zoning reducing the size and quality of homes (to compensate for margin impact)16.

4.1. However, when we analysed Special Housing Area building consents, we found the average size and per square metre improvement costs were higher than QLDC average.

4.2. Special Housing Area homes consented between 2015 and 2018 had an average floor size of 224 m2 (we trimmed the top and bottom 5% to reduce the impact of extreme outliers) compared to 185 m2 for all consents.

4.3. The average value of improvements for Special Housing Area consents was $2,700/m2 compared to $2,500/m2 for all consents.

5. Increase Impact on house price. International evidence shows mixed impact of Inclusionary Zoning on house prices. Most show no impact, but some increased prices17.

5.1. In literature that found a link, they found that IZ areas experienced faster house price growth during appreciating periods, and deeper declines during depreciating periods.

5.2. If there is a one-off increase in house prices it would benefit existing homeowners but penalise others (now and in the future) looking to buy.

5.3. Conservatively, we show the impact on existing owners (who enjoy higher house prices) and future buyers of new supply (who are worse off).

6. Improve economic opportunity for IZ beneficiaries? There is surprisingly limited research in this area. Our literature review suggests there are improvements in financial outcomes, some evidence of integration (when on site provision vs financial contribution), and can

[16] Bento (2009), Powell (2010)
[17] Shuetz (2011)

increase economic opportunity through access to high opportunity neighbourhoods, schools, etc. We attempt to quantify these benefits later in the report.

5. The Cost Benefit Analysis

The CBA is broad based and uses a range of data sources.

We consider the implications of our analysis over a long period of time, 30 years. This is because housing is a long-lived asset, and changes in such long-lived assets need to be considered over a long period of time. Further, many gains and losses are incremental and may not appear material unless cumulated over a long period of time.

The typical analysis of such schemes tends to focus on the private monetised benefits. These tend to show that the scale of be benefits of those housed is positive but may be outweighed by the cost borne by the original landowner, developer, or homeowner (through lower profits or higher prices of housing). When supply cannot keep up with demand, costs of IZ are likely to be borne by house buyers, rather than landowners or developers. When supply is responsive and the policy is widely applied, the price of landowners and developers will also share some of the cost.

The counterfactual presented tends to be one where unfettered market would supply more homes and, at least in the aggregate, everyone is better off. Future planning provisions are assumed as a given. This is understandable, but the true trade-offs are nuanced. Planning provisions that increase the property rights of a piece of land are additional endowments given by the community to the landowner. It may be considered as a transfer from the community to a private benefit.

Adding the inclusionary zoning requirements when rezoning is often easier. That is because additional rights, which have tangible economic value, compensate for the IZ. The policy needs to be applied as widely as possible to have the largest impact. But also needs to be consistent and coherent with wider objectives (including for example promoting density to reduce infrastructure demands). For example, difference in development economics for brownfields versus Greenfields means that we need to be cognisant of the reality of these issues.

Often, IZ is presented as a tax and an expensive way to meet the needs of a few. There are private and social benefits. The largest beneficiaries are those who can now live in affordable and healthy IZ homes in a high economic opportunity area. The extent of benefit can be financial (reduced outgoings) to much longer term (such as health, education opportunities for children in a better-quality school, and residential stability and lifetime outcomes. The likelihood of better lifetime outcomes through reduced housing costs, increased housing stability and living in a low-poverty area usually not counted. We also include estimates of the economic benefits of reduced labour turnover among IZ residents – which accrue to local businesses and the wider community.

We utilised the Treasury's analysis of the impact of planned urban regeneration in Porirua to help us make modest economic benefit estimates from mental health, education, and reduced energy cost estimates. Their analysis covered economic, wellbeing and fiscal domains. We have focused on the economic domain only. The fiscal domain is not relevant in this instance. Wellbeing domain drives large results but are not necessarily a relevant factor in s32 review.

5.1. Who loses?

How the IZ policy is defined will matter a great deal on who bears the costs and who bears the benefits. If house prices increase for example, then existing homeowners will benefit. The benefit to the IZ residents and the wider community are complex to calculate but are positive. The costs, or at least perceived costs, are borne by landowners and/or non-IZ buyers, depending on how elastic the housing market is.

Costs falling on developers may reduce supply of housing, as some projects may become uneconomic. Similarly, supply may slow because increased house prices make them less affordable, reducing demand for new housing.

Economic theory tells us that who bears the cost will depend on the relative elasticity of demand. If home buyers are relatively inelastic, because of the unique amenities of QLDC, then home buyers will absorb the cost. If the price increase is too much and buyer demand reduces (that is the demand is elastic), then developers and landowners will exit the market, delay developments or lower prices, slowing housing supply or reducing the price of land.

Our analysis of QLDC's experience with IZ policy to date does not show any discernible impact on house prices or housing supply.

5.2. Is it really a loss?

The property rights of a landowner are the rights commensurate to current planning provisions. There is a potential value uplift in future planning changes, but there is associated risk. Those planning changes and value uplifts may not happen. Rules may change around flood plains or the imposition of the IZ clauses. This is a risk that a landowner takes when anticipating changes in future planning rules.

Unless the IZ provisions reduce the value of the land at prior use plus the cost of infrastructure provision (which would reduce land and housing supply), then no property right has been reduced. Rather, any extension of property rights would have been conferred by society to the landowner. When it includes IZ, it reduces the additional property rights and associate value uplift conferred to the landowner and subsequently to the developer and home buyer.

New planning provisions also have an impact when implemented, but the impact fades over time. So, if IZ is imposed uniformly and consistently across a broad class of land and developments, then there will be a one off reduction in the value of this class of land, but over time it will not represent additional friction in land supply.

Since our analysis shows that QLDC can supply sufficient number of homes, but that the pace of build is not always high enough and they are not affordable homes. With IZ, we do not need the total quantum of housing supply to increase per se, rather the housing supply to include an affordable portion.

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5.3. Estimating the economic benefits

We take a conservative approach in estimating the economic impacts of IZ in QLDC.

The key source of economic benefits arises from secure and proximate housing leading to better labour market outcomes, both through improved employment prospects and reduced turnover.

We also attach modest improvements in mental health outcomes, education outcomes and reduced energy and transport costs.

We also look at a scenario of house price changes. In our high (good) case, we assume no change in house prices consistent with a large body of literature and our analysis of the impact of IZ housing in QLDC. We include a one off 1% increase scenario in house prices in our low case. International literature suggests that house price impacts

Our estimates show that there are significant potential benefits from improved housing outcomes, if they can be crystallised into reduced labour turnover, which is a considerable drain on the local economy.

If house prices increase, then the impact on future homebuyers would largely offset these economic gains.

FIGURE 16: ESTIMATED ECONOMIC BENEFITS OF QLDC IZ POLICY

	Volume	Impact		NPV ($m; @6%)	
Element	Households	Direction	Monetary value	Worst case	Best case
Economic Impact					
Labour turnover[1]	1,000	+	55,000-110,000	27	96
Mental health improvement[2]	1,000	+	366	2	3
Education Outcome[2]	1,000	+	6-20	0	0
Energy & other cost savings[2]	1,000	+	30-200	0	2
House price effect on:					
House price change[3]				1%	0%
Existing homeowners	19,137	+		187	0
New home buyers	17,300	-		-212	0
Total				3	101

(1) Assume that employment rate equals QLDC rate and labour turnover reduces to national rate

(2) Sourced from Treasury's Porirua Regeneration Business Case

(3) We assume no house price change in high case, and 1% increase in low case

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Our analytical scenarios reflect the following assumptions:

- Supply is spread over the next 30 years and the Net Present Value (NPV) discounted at 6%.
- Labour turnover of affected households reduces from the QLDC average to the national average. The low case assumes lower monetary value (55,000) and 1 person per household working, and the high case assumes higher monetary value ($110,000) and 1.8 people per household in employment (based on our analysis of the current waitlist for QLCHT).
- The mental health improvement is based on the Treasury (2018) analysis of people moving from unstable to stable housing. We apply them per household.
- Education outcomes are applied to the number of children per household, based on our analysis of QLCHT waitlist and Treasury (2018) analysis.
- Energy and cost savings are applied per household, based on Treasury (2018).
- We show two house price impact scenarios.
    - In our best case, there is no impact on one off impact on house prices. Our analysis of QLDC's experience with IZ does not show any discernible impact on house prices.
    - In our worst case, we assume a 1% one off increase in all house prices (existing and future house prices)[18]. This gives an immediate wealth boost to existing owners but adds cost to future home buyers (which is discounted back to today).
- The net economic impact of IZ scenarios are:
    - Worst case, the costs are benefits are roughly equal (benefits outweigh costs by $3m, discounted at 6% over 30 years).
    - Best case, using conservative assumptions and not including wider wellbeing benefits, the benefits outweigh costs by $101m (discounted at 6%, over 30 years).

[18] In large studies that compare multiple long running IZ policies, they found variable outcomes (Mock 2016). Some had no increase in house prices, others have increase in house prices of 1.0%-2.2%. High impact areas had very different requirements to those proposed in QLDC, so we chose the lower end.

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6. Conclusion

QLDC is exploring IZ policy because there is a lack of affordable housing supply. Current prices of houses and rents are high relative to incomes available through many local jobs.

These costs and benefits need to be seen alongside some key questions[19]:

1) Who are the houses for?

2) What are the financial and political costs to the society?

3) To what extent to they offer a vehicle for recapture of land value increments?

International approaches take a slightly different approach to answering these questions and managing arising tensions. These are important tests for our policy development.

Experience of recent years shows that housing supply can be ramped up. But even when that happens, there is not enough supply of affordable homes. Until there is an abundant supply of homes, market provision of affordable housing is unlikely.

IZ is a planning tool to specifically generate affordable housing, the goal. On its own, it can be distortionary. When combined in the context of other policies that facilitate housing supply, these distortions can be mitigated.

Our analysis suggests that from a monetary perspective, the benefits and costs accrue to different cohorts, but that the net impact is positive.

Our analysis of QLDC IZ policy to date show that the common criticisms of IZ policy internationally has not been evident (reduced supply, reduced size, and increased price).

[19] Calavita (2010)

Appendix A – Treasury's outline of potential benefits from improved housing

The benefits for IZ beneficiaries come from a range of sources[20]:

- Subjective wellbeing
    - Subjective value gained from better mental health with better housing
    - Subjective value gained from living in a warmer home and feeling more healthy
    - Subjective value gained from better connection with neighbours
    - Subjective value gained from improved physical health from being more active
    - Subjective value gained from feeling safer
- Physical health
    - Fewer hospitalisations from infectious diseases due to overcrowding. Research from the New Zealand Healthy Homes study identified that reduced overcrowding was associated with a 61% reduction in acute and arranged hospital admissions for children.
    - Fewer incidences of respiratory illness from damp or overcrowded homes, which are estimated by Treasury to cost around $800 per person.
    - Being more active via active transport modes (reduced reliance on long commutes) improves fitness reduces diabetes and cardiovascular disease risk
- Mental health
    - Fewer specialist visits from improved mental health. For example, research suggests reducing overcrowding can reduce the risk of diagnosed mental health disorders in children by 15%.
    - Better employment outcomes and a more productive workforce from reduced feeling of depression
    - Improved productivity from reduced feeling of depression

[20] Treasury (2018)

- Education
  - Improved school attendance from better health outcomes
  - Improved performance at school with less disruption in the home environment
  - Better school attendance and progression to higher education from neighbourhood effects
  - Improved housing stability
- Cost savings
  - Reduced electricity costs from more energy efficient homes
- Jobs/training
  - Improved job and incomes prospects accessing a higher opportunity neighbourhood

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Ministry of Housing and Urban Development

Reserve Bank
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Assessment of the Housing System: with insights from the Hamilton-Waikato Area

Housing Technical Working Group

18 August 2022

Contents

Contributing members of the Housing Technical Working Group: Dominick Stephens (Treasury, Chair), Nick McNabb (MHUD), Chris McDonald (RBNZ), Alan Bentley (MHUD), Matthew Brunton (RBNZ), Enzo Cassino (RBNZ), Andrew Coleman (RBNZ), Ashley Farquharson (RBNZ), Alex Gunn (MHUD), Jonno Ingerson (MHUD), Frances Krsinich (MHUD, Statistics NZ), Hannah Ouellet (Treasury), Chris Parker (Treasury), Tyler Smith (RBNZ).

Executive Summary

To better understand the drivers of house prices and rents and how this has impacted households Te Tūāpapa Kura Kainga (Ministry of Housing and Urban Development), Te Pūtea Matua (Reserve Bank of New Zealand) and Te Tai Ōhanga (The Treasury), through the Housing Technical Working Group, looked at the housing and urban development system in Hamilton-Waikato to build a more comprehensive picture of supply and demand and how these have interacted over time.

It is commonly asserted that a lack of dwelling supply relative to population has been a key driver of rising house prices in recent decades. But physical supply and demand should affect rents as well as prices, and over the past twenty years house prices have risen far more than rents. Our key conclusion is that a combination of a global decline in interest rates, the tax system, and restrictions on the supply land for urban use have led to a large change in the ratio of prices to rents, and are the main cause of higher house prices in Hamilton-Waikato, as well as other parts of Aotearoa New Zealand, over the past 20 years.

To understand the drivers of rents and house prices it is important to separate the supply of land from the supply of dwellings. We find that regulations and other constraints to urban intensification (building up) and expansion (building out), particularly in the main urban areas, have restricted land supply with implications for house prices and rents.

In the context of restrictions to land supply, the key driver of house prices over the last twenty years has been the global decline in interest rates that significantly reduced the cost of debt servicing and increased home buyers' ability to pay. The resulting increase in demand inevitably caused an initial lift in prices. If land supply had been more responsive, then over time that initial price rise would have incentivised a larger housing supply response, causing prices to retreat and rents to fall below their initial levels relative to income. This did not fully happen, because land supply has been restricted.

Due to restrictions to land supply, much of the global decline in interest rates was instead capitalised into, or captured by, higher land prices. As land prices rose alongside house prices, there was less change in the incentive to build new houses, and less of a supply response. Consequently, the initial price rise caused by lower interest rates persisted, and the longer-run retreat in prices and decline in rents did not materialise.

Evidence supporting our conclusions includes the fact that prices rose much further than rents, that the price of land rose much further than the cost of constructing new dwellings, and direct indications of restricted land supply.

Restrictions to land supply also influence how the tax system and other factors affect house prices relative to rents. The more restricted the supply of land, the more that changes to the tax system will be captured as changes in the value of land, rather than affecting incentives to build more homes and reduce rents. Hence the tax system has played a role in the passthrough from lower interest rates to higher land prices. Similarly, when land supply is restricted, changes to construction costs or building standards are more likely to affect land values than housing supply or rents.

We still regard the supply of dwellings as extremely important for housing costs and the wider housing system. The supply of dwellings relative to demand is a less prominent driver of house prices, but an important determinant of rents. Until recently rents in Hamilton Waikato had moved broadly in line with, and at times slower than, incomes over a long period. Trends at a national level were similar. But since 2015, rents have increased sharply across the Hamilton Waikato region as population has grown faster than the supply of dwellings. The worsening availability and affordability of rentals has increased financial stress and homelessness.

The increase in rents since 2015 is likely to have had a larger negative impact for the wellbeing of society's most vulnerable members than the large increase in house prices. This further emphasises the importance of our conclusion that, had land supply been more flexible, the large decline in interest rates would have resulted in rents and house prices being lower.

While we regard falling interest rates in the context of unresponsive land supply as the main driver of rising house prices over the past twenty years, it does not explain house prices in all places and all times. Costs of construction, land development and infrastructure have also increased over time, including to support other objectives like improved water quality or climate adaptation. Also in many regional centres house prices have spent periods of time below the cost of constructing new dwellings. Under these conditions increasing demand will cause prices to rise until new homes are priced competitively compared to existing ones.

One further and crucial caveat is that our analysis explains outcomes in the housing market where land and housing is valued as an asset as well as a home. For Māori, all land holds significant cultural and non market value . Land held under Te Ture Whenua Māori, which makes up of 5% of land in Aotearoa New Zealand, can be subject to significant additional constraints through fragmented ownership and access to finance. For this reason, the housing market drivers outlined in this paper will not necessarily explain outcomes for land owned by Māori. Aspects of the Māori Housing system will be a focus of future work.

Reforms to increase land supply (including the National Policy Statement on Urban Development and The Resource Management (Enabling Housing Supply and Other Matters) Act) may moderate land and house prices further, but this is dependent on other factors such as local government support, the provision of infrastructure and decisions by major landowners including mana whenua. This will play out over a longer timeframe.

While there are significant potential gains from improving the responsiveness of land supply to changes in demand, many constraints could be difficult to fully address, and others exist for good reasons. Further reforms to improve the responsiveness of land supply, including through the Resource Management Act reforms, need to be supported by an improved understanding of the interactions between housing and other national, regional or local objectives, all of which support thriving communities. Priorities around climate change, emissions reductions, food production, maintenance of heritage/character, and the limits around funding and financing of infrastructure and urban development all have the potential to limit land supply or make development more expensive.

Better assessment and monitoring metrics will help us manage these interactions and identify where and how land supply can be more responsive while also consistent with other objectives, such as the Government Policy Statement on Housing and Urban Development. Developing better indicators of land supply responsiveness is a key next focus of the Housing Technical Working Group.

There is no simple and complete solution to solving the housing crisis. The Housing Technical Working Group, with support from other stakeholders, will work together to get a better understanding of the relative impacts of policies on housing outcomes and the other priorities for New Zealanders.

At a Glance - Some Key Facts

Due to restrictions on the supply of land, the global decline in interest rates over the past twenty years was capitalised into land values, explaining most of the rise in house prices.

If land supply had been more flexible, falling interest rates would have sparked more of a housing supply response, meaning rents and prices would have risen by less.

For the Waikato Region, between March 2002 and June 2021:

- House prices increased by 372% and rents by 114%.
- Incomes increased by 98% over the same period, while national construction costs increased by 142%.
- Section prices have increased by 405% (and 658% in Hamilton City).
- Deposit affordability has declined sharply, with the required deposit increasing significantly relative to income.
- Mortgage affordability – the cost to service a mortgage – had improved due to the decline in long term interest rates, although the very recent increase in mortgage rates has largely reversed this.
- Rental affordability improved from around 2007 through to 2014, but since then an increase in people per dwelling has put pressure on the supply and demand for housing causing the recent decline in rental affordability.
- The relative affordability of Hamilton Waikato housing compared to Auckland increased demand from movers, first home buyers and investors, contributing to population and price growth.
- A number of metrics indicate that land supply has not been responsive to increased demand, consistent with the strong growth in section prices and the increase in the house price to rent ratio.

Background

The high price of housing, including rents, is one of the most important issues facing New Zealanders today.[1] In 2020, New Zealand had the highest housing cost to disposable income ratio in the OECD.[2] However, access to affordable housing is not a new issue, it is a persistent long-term challenge that has far reaching consequences on social, cultural and economic outcomes. Reductions in affordability can exacerbate inequality, homelessness, and child poverty, generate financial stability risks, and redistribute wealth. Insufficient responses to Māori housing issues have had an intergenerational impact on Māori communities. It is therefore important that the Government's response to the housing crisis is effective with government agencies having the best possible understanding of the housing market and the housing and urban development system within which it sits.

The housing market is complex and influenced by many factors. In 2021 many changes were made to New Zealand's housing system. During 2020 and 2021, there was a rapid increase in house prices. This was different to expectations that the market would cool due to the impacts of COVID-19. Given that this rapid increase occurred during a period of low population growth and strong construction activity, it challenged traditional understandings of the housing market. In 2021, the Government put additional investment into housing and infrastructure, Māori housing, and made changes to tax and zoning policies. In March 2021, the Reserve Bank reinstated Loan-to-Value Ratio restrictions at pre-COVID levels, and further tightened restrictions later in the year. The Minister of Finance also gave a direction to the Reserve Bank to have regard to the effect of financial policy on house price sustainability. In addition to the Government's and the Reserve Bank's actions in 2021, many existing housing policies, programmes and long-term reforms remain underway.

Given that there is a lot going on in the housing market, the Reserve Bank, Treasury and the Ministry of Housing and Urban Development wanted to ensure we had a common and evidence-based understanding of the housing market. We undertook this assessment to develop a deeper understanding of the demand and supply drivers of housing, and how these drivers interact to affect house prices and rents. We are also interested in the impact of recent and ongoing policies on the housing market. Insights will be used to help inform our approach to supporting the Government's housing objectives that were set out in the Government Policy Statement on Housing and Urban Development (GPS-HUD),[3] released in September 2021.

The three agencies looked at the Hamilton-Waikato area to ground our assessment of New Zealand's housing market. We took a place-based approach to capture insights that were likely to be relevant across New Zealand. To support our conclusions about the national housing market, we also used national level data. The Hamilton-Waikato area – principally the Future Proof area of Hamilton City, Waipa District and Waikato District – was selected because it is a major urban area with fewer natural constraints or market disruptions than other major centres.

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1 Ipsos (2021), 'The Ipsos New Zealand Issues Monitor. An Ipsos Survey - October 2021'.
2 OECD (2020), 'How's Life? 2020: Measuring Well-being', OECD Publishing, Paris.
3 hud.govt.nz/urban-development/government-policy-statement-gps/

As leads for the housing and urban development, economic, financial and monetary systems, the three agencies led this assessment to test how our analytical and theoretical frameworks performed in the Hamilton-Waikato area and nationally. This report is an observational analysis of how the housing market functions and does not put forward specific policy advice or points of action.

An important caveat to our analysis is that it focuses on the outcomes in the housing market, where land and housing is valued as an asset as well as a home. Our analysis will not reflect outcomes for Māori where land has significant cultural value as well as market value, and where additional constraints and responsibilities can limit how land is used. Future work of the Housing Technical Working Group will look at how aspects of the Māori housing system interact with the housing market, with an initial focus on supporting reforms to financing on whenua Māori.

Terminology used in the report

Land supply is a term that will be used throughout the report. While the overall supply of land in a country is ultimately is fixed, the extent to which is can be used for urban uses, including housing is not. In this report, the supply of land refers to:

- new urban land, typically on the outer limits of cities;
- redevelopment opportunities on existing urban sites; and
- intensification opportunities on existing housing sites.

It is also important to note that urban land may be used for housing, commercial, industrial, infrastructure or community purposes. While the predominant focus of this report is the supply of land for housing, land is also needed for other urban uses to enable communities to thrive.

The supply of land for urban use is not just about land use regulation, land also needs to be serviced by infrastructure. In cities, the quality of transport networks can be a key determinant of land value and the volume of redevelopment and intensification opportunities, and therefore land supply.

Restricted land supply means that there are rules, regulations or constraints that reduce the supply of developable land (serviced by infrastructure). **Abundant land supply** means that there are no restrictions or constraints to land supply.

Key findings

1. **Rising prices and rents have had a significant impact on wellbeing, home ownership rates, wealth inequality, homelessness and child poverty. These outcomes disproportionately affect low-income earners, Māori and Pacifica people and young people.**

Low-income earners, Māori and Pacific peoples and young people are more likely to rent the homes they live in, and Māori and Pacific peoples are overrepresented on the Public Housing Register. On average across New Zealand, rents have risen in proportion to incomes over recent decades. However, in some parts of the country, including the Hamilton/Waikato area, a shortfall in housing supply drove rents up faster than incomes between 2014 and 2019. This could have a long-lasting effect on wellbeing for some of New Zealand's most vulnerable people. Some New Zealanders will rent for life and compared to other groups will likely have higher lifetime housing costs relative to their income.

The biggest change in housing affordability has been experienced by aspiring first home buyers struggling to raise a house deposit. Rising house prices over the past twenty years have caused a dramatic rise in the deposit required to get a mortgage compared to average incomes. Consequently, many people have been forced to delay their entry into homeownership and others have been locked out of the housing market altogether, exposing them to high rental costs.

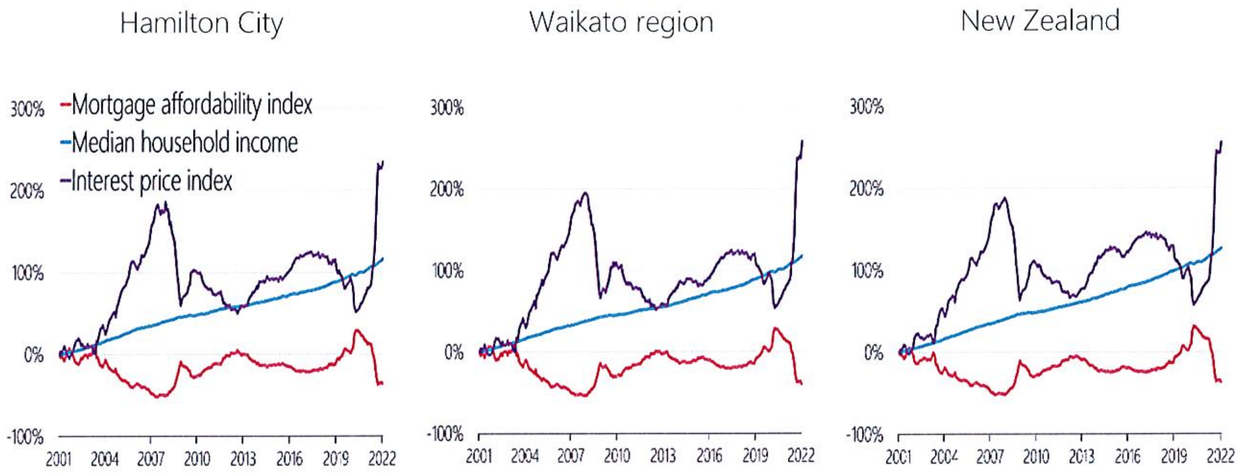
In contrast to aspiring first home buyers and other renters, people with sufficient capital to muster a deposit have benefitted from mortgage rates trending lower over time. Despite rising house prices, mortgage affordability has generally been maintained in the sense that mortgage payments on a given house have increased at a similar pace to incomes over the past twenty years. This is the key reason that some New Zealanders have been willing and able to pay such high prices for houses, but it has come at the cost of increasing the barrier for others to home ownership. Furthermore, over the past twenty years existing homeowners have benefitted from a rise in the value of their main asset. This has amounted to a redistribution of wealth from non-owners to owners.

Analysis of the Hamilton-Waikato Area

House prices in the Hamilton and Waikato area have increased much faster than incomes over the past 20 years. However, mortgage rates have approximately halved. The net effect is that mortgage costs relative to income have decreased since 2000. Figure 1 shows that mortgage affordability has improved over the past 20 years, but has recently dipped due to a lift in mortgage rates. This means recent buyers may find it more difficult to service a mortgage compared to when they purchased the home.

Figure 1 Mortgage affordability

Change in mortgage interest prices and incomes since March 2001

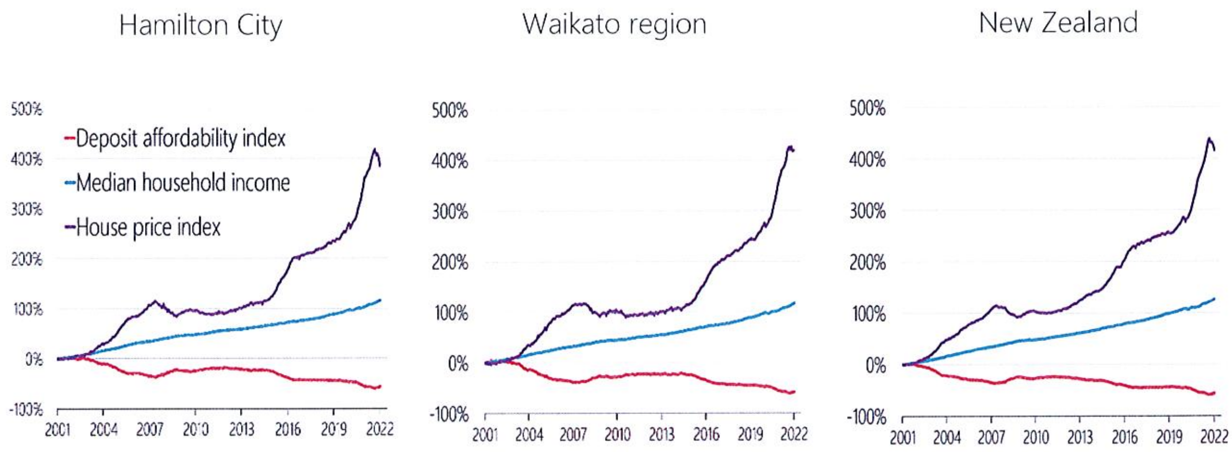


Note: Higher affordability index means becoming more affordable. Source: Te Tūāpapa Kura Kāinga Ministry of Housing and Urban Development estimates, Stats NZ, Tenancy Bonds, and CoreLogic.

Deposit affordability measures the ratio of house prices to incomes. It can be thought of as the cost of raising the deposit necessary to get a mortgage on a typical New Zealand house, relative to incomes. Figure 2 shows that deposit affordability has fallen to historic lows in Hamilton, Waikato and across New Zealand, as house prices have increased. Hamilton has a younger population and a lower homeownership rate than the rest of the country, so deposit affordability is particularly relevant.

Figure 2 Deposit affordability

Change in property prices and incomes since March 2001

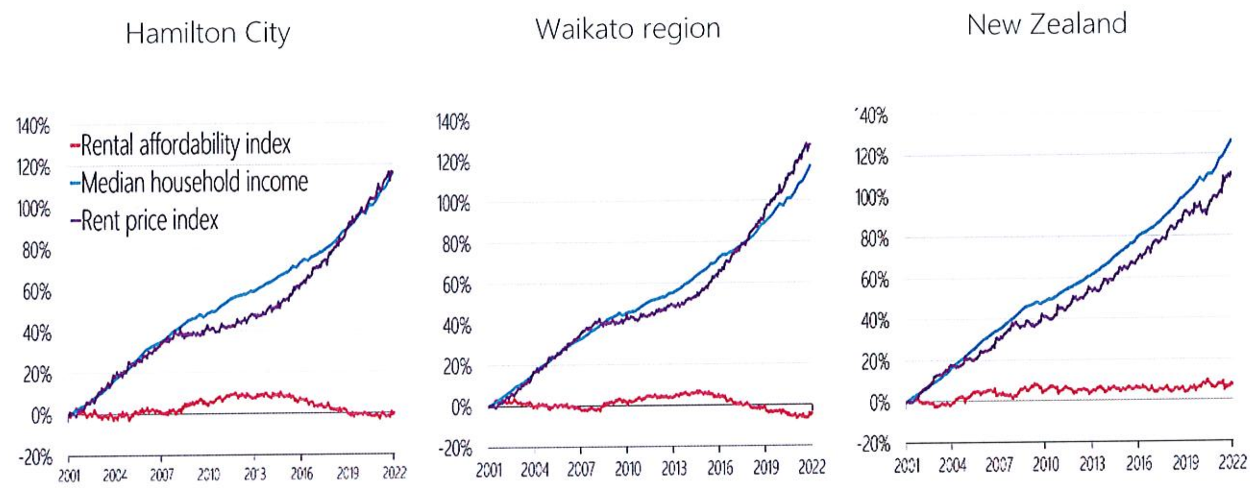


Note: Higher affordability index means becoming more affordable. Source: Te Tūāpapa Kura Kāinga Ministry of Housing and Urban Development estimates, Stats NZ, Tenancy Bonds, and CoreLogic.

National rental affordability has remained relatively stable over the past 20 years. However, median rents have increased slightly more than median incomes in Waikato over the past 6 years, leading to a drop in rental affordability. This is shown in Figure 3 below. The increase in rents is likely a result of population growth outpacing new dwelling supply in Waikato from 2014 to 2019 (see Figure 6). Over this time, there was also an increase in people per dwelling from 2.4 to 2.6 in the Waikato region, and from 2.8 to 3.0 in Hamilton City, indicating that a shortage of housing has emerged.

Figure 3 Rental affordability

Change in rent and income since March 2001



Note: Higher affordability index means becoming more affordable. Source: Te Tūāpapa Kura Kāinga Ministry of Housing and Urban Development estimates, Stats NZ, Tenancy Bonds, and CoreLogic.

The recent decline in rental affordability has had significant impacts on wellbeing. Worsening affordability has contributed to increased household crowding and individuals and whanau seeking emergency and public housing. In December 2021 there were 2,036 households on the Public Housing Register across Hamilton, Wāipa and Waikato districts, compared to 693 in December 2018. Compared to the rest of New Zealand, Hamilton has significantly more people (per capita) on the public housing register, and more families living in motels (see Figure A1).

For mana whenua in the Waikato region, this worsening affordability occurs in the context of historic loss of land through confiscation and war – or raupatu. For this reason, Māori own less land, fewer own their homes and have less intergenerational wealth. Because Māori make up a larger proportion of renters and aspirant first home buyers they have been disproportionately affected by recent declines in affordability.[4]

[4] Thom R R M, and Grimes A, "Land loss and the intergenerational transmission of wellbeing: The experience of iwi in Aotearoa New Zealand", Social Science & Medicine 296 (2022).

2. **A common view amongst economists and policymakers has been that rising house prices are a consequence of a lack of dwelling supply. The conclusion reached by the Housing Technical Working Group is that while the housing shortage has contributed to New Zealand's housing crisis by affecting rents and overcrowding, it has not been the major driver of house prices over the past 20 years.**

New Zealand policymakers and economists have often linked the rise of house prices to either shortages of dwellings or increases in construction costs. This reflects traditional economic theory, which holds that house prices should reflect the cost of constructing a dwelling plus the cost of vacant land, and that the price vacant land at the edge of city should reflect its next-best use, often farming. Any large increase in house prices should, over time, provoke an increase in housing supply until prices are driven back to the cost of construction plus land. Under this traditional model, large persistent increases in house prices are explained by either increases in the cost of constructing dwellings, or by a failure of the construction sector to mount an adequate supply response to any increase in demand.

However, the facts of the Waikato and New Zealand house price booms are not consistent with this explanation.

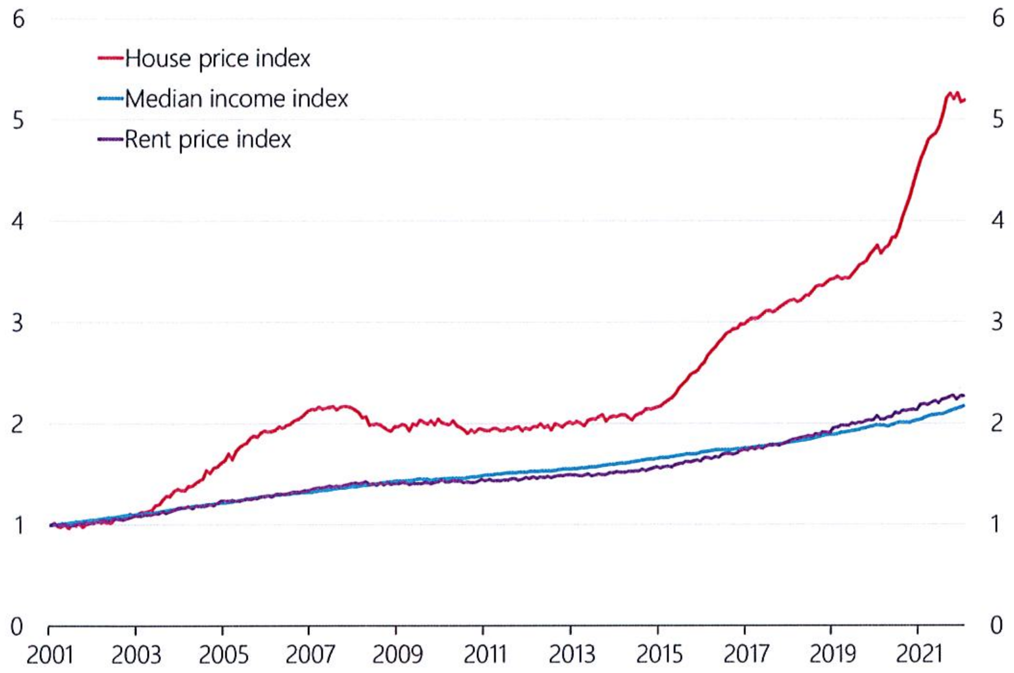
Analysis of the Hamilton-Waikato area

Shortages of dwelling supply should affect both house prices and rents, as the two forms of tenure are substitutes. But in fact, over the past twenty years (between March 2002 and June 2021), house prices have risen 372% while the increase in rents has been much smaller at 114%, and has been similar to income growth (Figure 4).

Over the same period, the national cost of building dwellings increased 142% based on the CPI purchase of new housing class (see Figure A2). Therefore, rising construction costs can at best explain only a proportion of the total increase. The remainder is associated with an increase in the price of sections.

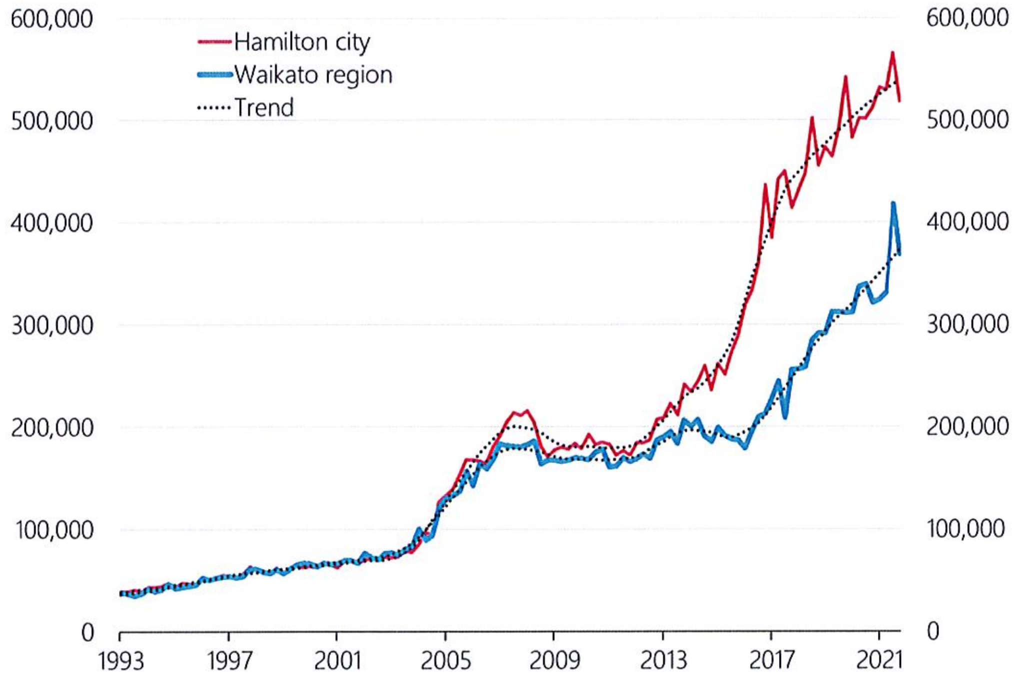
In the Hamilton-Waikato area the sharp increase in section prices aligns with recent movements in house prices (Figure 5). Where land supply is restricted, land is priced at its highest and best use as housing, therefore we expect section prices and house prices to track closely together.

Figure 4 Growth in house prices rents and income across the Waikato Region



Source: Stats NZ, REINZ, HUD estimates.

Figure 5 Median Sales Price for Residential Vacant Land
(rated up to Hamilton Median Section size of 0.068 Hectares)

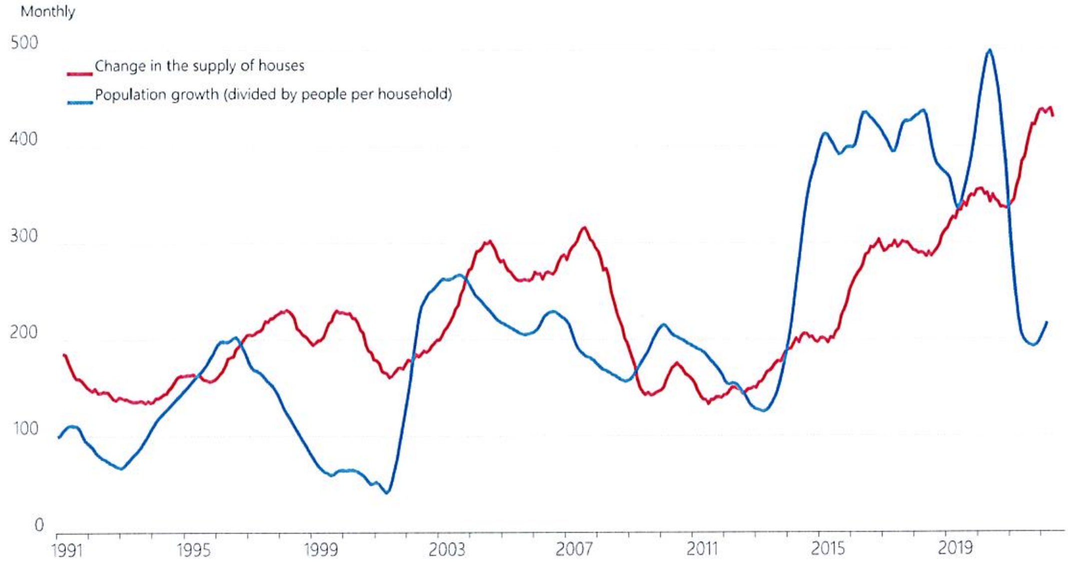


Source: HUD calculations based on CoreLogic data.

There has been no consistent link between supply shortages and house prices in Hamilton-Waikato over recent decades. Dwelling supply outpaced population growth from 2004 to 2007, a period of very rapid house price inflation. House prices also increased quickly when Hamilton-

Waikato experienced a large undersupply of housing relative to population growth from 2014 to 2019, a period when net immigration to New Zealand was elevated and as people from Auckland moved to the Waikato region (see Figure 8). However, population growth in Hamilton-Waikato fell sharply soon after the onset of Covid-19 and residential construction activity accelerated further, yet over 2020 and 2021 house prices rose even more rapidly than over the previous five years.

Figure 6 Population growth versus housing supply in the Waikato region



Note: 'Change in the supply of houses' is a 12-month rolling average of residential building consents. 'Population growth' is working-aged population growth from the Household Labour Force Survey (HLFS). This is divided by people per dwelling which is the ratio of the working-aged population over the number of electricity connections. Source: Stats NZ, Electricity Authority, RBNZ estimates.

3. In our assessment, the main driver of house prices in New Zealand over the past 20 years has been a global decline in interest rates, in the context of restricted land supply.

House prices rising much faster than rents over the past twenty years has resulted in a dramatic increase in the price/rent ratio, or equivalently, a dramatic decline in rental yields (annual rent divided by the property's value). This is a clue that financial factors have played a role in determining house prices in New Zealand.

In any housing market, rental yields should bear some relationship to the returns on offer in other markets. For example, if rental yields were much higher than interest rates, private landlords would seek to borrow cheaply to buy high-yielding investment properties, and some tenants would seek to become owner occupiers. This would increase demand for houses and the resulting price rise would drive price/rent ratios up, and rental yields down. This would continue until rental yields fell into equilibrium with interest rates, considering factors like risk aversion and taxes.

Our User Cost analysis shows that both at the national level and for the Hamilton/Waikato area, the decline in rental yield over the past twenty years is consistent with the large decline in mortgage rates that occurred over the same period (see below).

However, it is less clear why this necessary decline in rental yields was brought about by a large persistent rise in prices, rather than by a decline in rents. As the next section explains, this is due to the nature of land supply in New Zealand. Traditional models featuring abundant land supply predict that a fall in interest rates will eventually bring about increased supply and a decline in rents. But when land supply is highly restricted, theory predicts that interest rate changes will affect house prices rather than rents. Hence our overall conclusion is that a decline in interest rates in the context of restricted land supply is the key cause of the large increase in New Zealand house prices over the past twenty years.

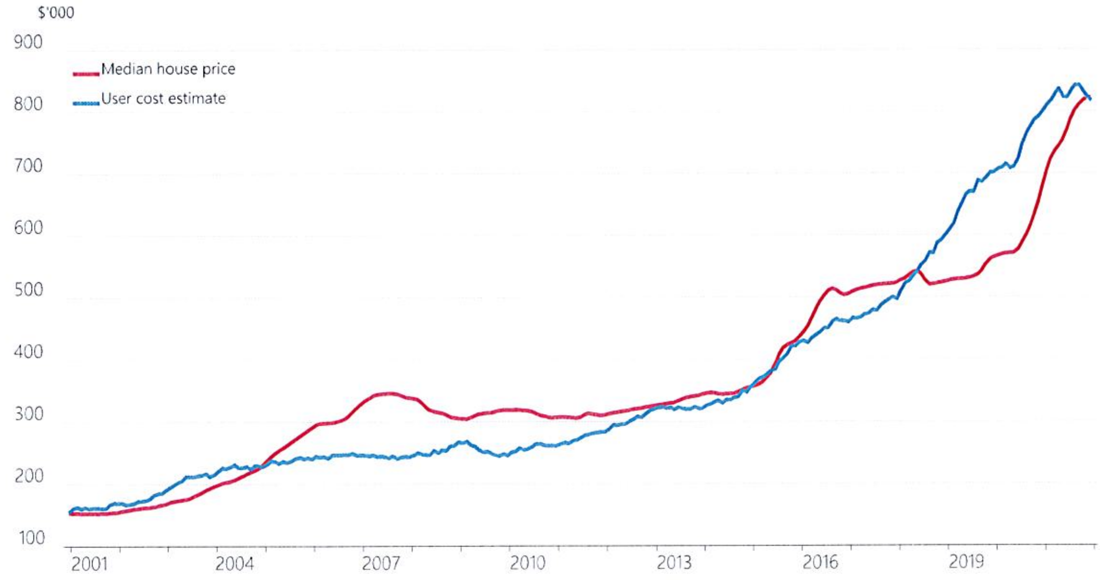
Analysis of the Hamilton-Waikato area

As noted above across the Waikato Region house prices have risen 372% between March 2002 and June 2021. By comparison rents and incomes are up 114% and 98% respectively, with CPI inflation of 49%. This suggests financial factors, in particular interest rates, have had the greatest impact on prices over the past 20 years.

To see how financial and other factors flow through to buyers' decisions the Group estimated the user cost value of housing in Hamilton. This is the value of a house for owner-occupiers or private investors given: rental income (or savings from not paying rent); cost of maintaining a property (including local council rates); opportunity cost of other investments; mortgage interest rates; inflation; and taxes including capital gains and the denial of interest deductibility.

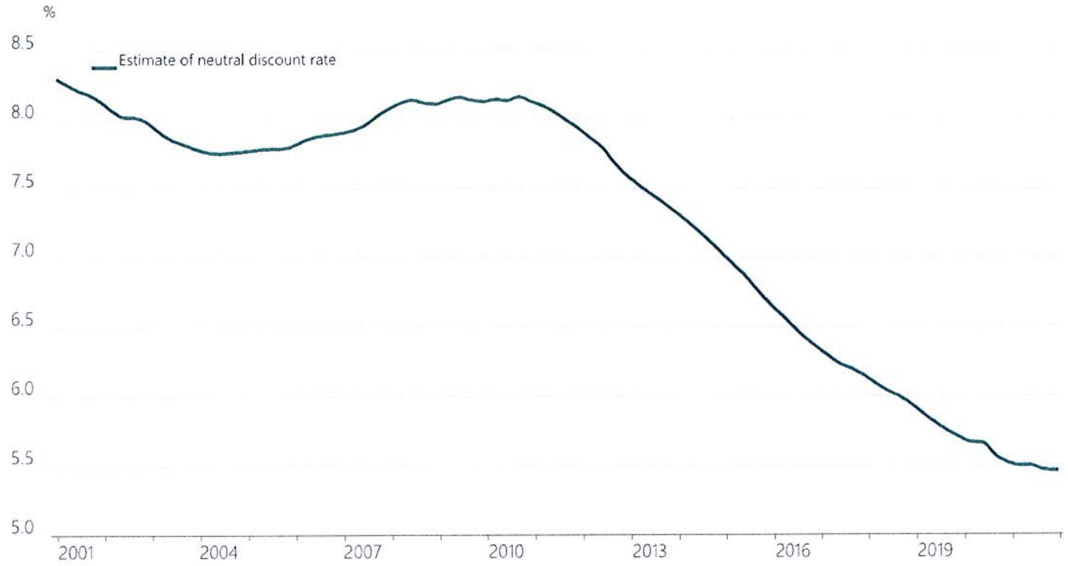
Figure 7A shows that changes in estimates of the user cost value of housing (in this case equivalent to a discounted cash flow of housing) provide a good explanation for the trend in house prices over the past 20 years. Since the Global Financial Crisis, house prices and user cost values of housing have increased steadily as long-term interest rates declined. This is also shown in Figure 7B by the estimated neutral discount rate.

Figure 7A User cost estimates of Hamilton house prices



Source: CoreLogic, RBNZ estimates.

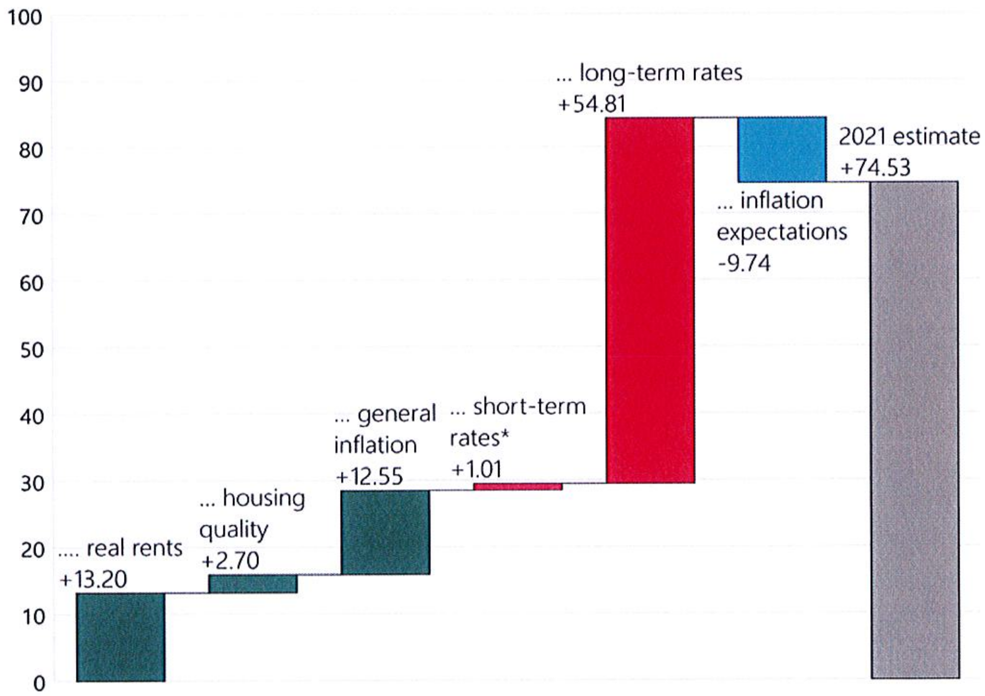
Figure 7B User cost estimates of Hamilton house prices



Source: RBNZ estimates.

Decomposing drivers of user cost estimates could be a useful tool to determine the main drivers of house prices. Figure 8 shows the decline in long-term interest rates has had the greatest effect on house prices since 2016, followed by rising real rents and rising rents due to general inflation.

Figure 8 Drivers of house prices in Hamilton since 2016 using user cost modelling (percentage change)



Note: The contribution of short-term rates reflects the change in the difference between long-term and short-term interest rates. The contribution from the change in housing quality is inferred from the difference in rent growth between rental bond data and Stats NZ Rental Price Index. Source: Stats NZ, CoreLogic, RBNZ estimates.

4. A housing market experiencing restricted effective land supply behaves differently to traditional models. Restricted land supply can explain the New Zealand experience.

For the purposes of illustration, this section describes how housing markets will work in two extreme cases: completely abundant land supply, and completely restricted land supply. In reality, New Zealand land markets lie somewhere on a spectrum between these two extremes, as discussed in section 5.

Completely Abundant Land Supply

When land supply is completely abundant, house prices will reflect the cost of building new dwellings – construction costs plus land prices. The price of land at a city's edge will reflect its next best use such as farming, plus the cost of providing suitable infrastructure. Inner city urban land will reflect what people are willing to pay to live closer to jobs and amenities, compared to living at the city's edge.

If land supply is abundant, then if house prices rise above the cost of construction plus land, new construction will be incentivised, housing supply will increase, and house prices will moderate. Consequently, changes in construction costs would be reflected in changes to house prices.

Under abundant land supply, a decline in interest rates might cause house prices to rise initially, but this would provoke an increase in the supply of dwellings, reducing both rents and house prices. In the long run, rents would adjust to ensure rental yields reflected the financial backdrop. Similarly, taxes on housing would eventually affect rents, not house prices.

Completely Restricted Land Supply

When land supply is completely restricted, the price of land is free to diverge from its next-best use, such as its value as a farm on the edge of a city. Rents, however, will be anchored by tenants' willingness and ability to pay, given factors including household incomes and supply-demand balance. House prices will reflect the net present value of this rental income to a potential investor (or the value of switching away from rent to an owner-occupier). As land is artificially scarce, it would be priced at its highest and best use as housing, less the cost of constructing the building.

Therefore, when land supply is completely restricted any change in construction costs will simply increase or decrease land values, without affecting incentives to supply new dwellings or rents.

Similarly, any change in interest rates will be captured as a change in land values. A drop in interest rates would cause house prices to rise, but since land values would also rise there would be no change in incentives to build, and therefore no change in rents.

Finally, when land supply is completely restricted, tax changes would affect land values, but would not affect housing supply or rent.

Table 1 Long-run impacts on house prices, depending on characteristics of land market

	Completely Abundant Land Supply	Completely Restrictive Land Supply
Construction cost increase	House prices and rents increase. Land prices unchanged.	Land prices decrease. House prices and rents unchanged.
Introduction of capital gains tax or a tax on house owners	Rents increase due to supply reduction. Land prices and house prices unchanged.	Land prices decrease, house prices decrease, no change in supply, rents unchanged.
Permanent interest rate decline	Rental yields fall via a reduction in rents due to increased supply, house prices unchanged, land prices unchanged.	Rental yields fall via an increase in house prices and land prices. No change in supply, rents unchanged.
Large increase in population	No long-run change in rents or prices due to supply response.	Some increase in rents and prices as no change in supply.

5. New Zealand's land supply lies between abundant and restricted, and some cities have more abundant land supply than others.

The rapid rise in prices compared to rents seen in the Hamilton-Waikato housing market over the past twenty years, and of the New Zealand market at large, is inconsistent with completely abundant land supply. The behaviour of these housing markets is indicative of some degree of restriction or constraint on the supply of land. But neither is the availability of land completely restricted. For example, rising house prices do appear to generate a dwelling supply response.

While neither completely abundant or restricted land supply exists in practice, our analysis suggests that land supply in the Hamilton-Waikato area lies closer to the more restricted extreme than is commonly understood. The same is likely to be true for much of New Zealand.

Analysis of the Hamilton-Waikato Area

The Group has looked at four key indicators of urban land market performance. While no indicator provides a precise measure of the cost of land supply restrictions, the three indicators with recent evidence for Hamilton-Waikato suggest that land supply has been restricted. These indicators are useful for monitoring how responsive land supply is to demand, and for understanding the impact of local and central government interventions.

Rural-Urban Land Price Differential

When land supply is abundant, rural and urban land prices at the city's fringe should be similar in value (net of development costs). Taking account of costs of development, Hamilton-Waikato had a rural-urban price differential of $227 per m2, based on 2017 prices (see Figure A3). This indicates that within the city there is a shortage of opportunities to redevelop brownfield land, and at the fringe there is a shortage of urban land supply. Since 2017 this price differential has most likely increased.

Upzoning Premiums

When land supply is abundant, land prices at any given location should remain similar in value after restrictions are removed. A study in Auckland found that large scale upzoning increased the price of underdeveloped properties relative to properties that were already intensively developed and properties that were not upzoned [5] This indicates that developers were (and likely still are) prevented from redeveloping sites to match demand for housing in some locations. This analysis has not been conducted in the Waikato area, but we would expect similar results.

House Price to Construction Cost Ratio

When land supply is abundant, house prices should broadly equate to the cost of constructing a new dwelling plus land and infrastructure. Based on research from the United States, where in many housing markets land supply is abundant, the cost of construction makes up around two thirds of the cost. This means the price of a home should be no more than 1.5 times the cost of construction. In Hamilton-Waikato, house prices generally outstrip construction costs. In 2016 the house price to cost ratio was estimated at 2.23 and has risen over time (see Figure A4)

Extensive vs Intensive Land Values

When land supply is abundant, there should be no systemic difference between the value of land under dwellings and vacant land. In Hamilton-Waikato the value of land under a dwelling was 2.8 to 5.4 times higher than the price of land that is not developed due to, for example, land use constraints and other physical and economic constraints. Land use regulations may have represented up to 28% of a dwelling's price in 2015, a premium of up to $128,634 for the average dwelling.[6] These regulations are often a function of the broader urban planning system.

Different Constraints to Land Supply

Completely abundant land supply does not exist in practice as there are frictions and constraints that cannot be removed, may be expensive to remove, or may be net beneficial to society. To some degree the indicators reviewed above will reflect these frictions, other constraints or the effects of meeting other objectives. However, there are many things we can do to make effective land supply more abundant. We have identified three general categories of constraints to residential development:

[5] Ryan Greenaway McGrevy, Gail Pacheco, Kade Sorensen, "The effect of upzoning on house prices and redevelopment premiums in Auckland, New Zealand", Urban Studies (August 2020)

[6] This is an upper limit estimate noting that difference could also be due to other frictions such as land fragmentation

Geographic and natural constraints: Highly productive soils, deep peat soils, rivers and high-risk flood zones from wetlands. Around 65% of land in the Waikato is used for farming or forestry, 27% is indigenous vegetation, and 1% is urban.[7] Compared to other major centres, the Waikato has fewer natural constraints. Sites of significance to Māori can also be a constraint on development and unable to be mitigated.

Less or non-controllable constraints: Extensive fragmentation of land ownership limits development options and past investment in infrastructure such as the Main and Eastern Trunk Lines and the Waikato Expressway create physical barriers and path dependence for future development.

More controllable constraints: including choices around regulation and investment. For example Waikato's Regional Policy Statement and the NPS-UD are relatively permissive to urban expansion and intensification. The new medium-density rules are expected to add 3,000 to 12,000 dwellings in Hamilton.[8] However, much of the proposed future land supply does not have infrastructure committed. For this reason, it is not yet planned and cannot be developed.

Our conclusions are in line with recent work by Te Waihanga – the New Zealand Infrastructure Commission – that looked at the role that urban planning policies and infrastructure have played in slowing the responsiveness of housing supply and contributing to higher prices. A key difference in approach is that our analysis has identified the important role played by declining interest rates in the last 20 years, while Te Waihanga looked over a much longer time-period including past periods of low interest rates. Our view is that the combination of restrictions to land supply and the decline in interest rates have caused the price/rent ratio to increase over the past twenty years.

6. The tax system has also contributed to high house prices, given restrictions to land supply.

A neutral tax system is one that treats different economic activities equally. New Zealand's tax system is not neutral. There are a range of tax distortions that affect house prices, land prices, rents and construction costs in New Zealand, and these have affected the Hamilton/Waikato area as much as other regions. The most important distortions are:

- Imputed rent (the rent owner occupiers effectively pay themselves) is not taxed, whereas other forms of income earned on investments are taxed.
- Capital gains are not often taxed, whereas other forms of income are.
- GST is charged as a lump sum when a house is built, and is charged on maintenance costs and rates, but is not charged on the flow of housing services consumed (rents or imputed rents).

The first distortion increases the incentive to purchase housing relative to other forms of consumption, creating an incentive for people to live in bigger or better houses than otherwise.

Both the first and the second distortions also increase the investment value of housing relative to other investments. Devoting resources to owner occupied housing yields untaxed shelter in perpetuity as well as untaxed capital gain, whereas saving money in the bank or investing in one's

7 Waikato Regional Council, Land and Soil Monitoring Report, https://sups.te.waikatoregion.govt.nz/environment/land-and-soil/land-and-soil-monitoring/land1-report-card/
8 PWC and Sense Partners Cost Benefit Analysis of proposed Medium Density Residential Standards, https://environment.govt.nz/assets/publications/Cost-benefit-analysis-of-proposed-MDRS-Jan-22.pdf

education will yield a taxed stream of future income. Similarly, investing in rental housing yields tax-free capital gain for those who hold the property for long enough. Our analysis shows that these tax distortions have caused a higher price to rent ratio in New Zealand than under a more neutral tax system. In theory, whether prices or rents are affected depends on land supply. In a world of abundant land supply, these tax incentives for housing would lead to greater housing supply and therefore lower rents. Conversely, under completely restricted land supply, tax incentives would be capitalised into the value of urban land and would have little effect on housing supply. In practice, we assess New Zealand as being closer to restricted land supply than abundant, and therefore we conclude that these income tax distortions are likely to have driven house prices higher rather than increasing supply and reducing rents.

The corollary is that future changes to the income tax incentives around housing investment are more likely to affect urban land prices and house prices, rather than affecting housing supply or rents.

Charging GST at the time of construction increases the cost of building new houses. As noted in section 4, how construction costs affect house prices depends on land supply, with a fairly limited role for construction costs under conditions of restricted land supply. However, the overall role of GST extends well beyond this direct impact on construction costs, and includes a complex array of interactions stemming from the fact that GST is not charged on rents but is charged on other goods, and that GST is charged on only some land transactions. Assessing the overall impact of New Zealand's GST on house prices is a possible area for future research.

Tax Distortion in Hamilton House Prices

The Group compared the impact of tax distortions on different house buyers. This was done with the user cost value of housing approach shown in Figure 7, comparing the estimated house value for each buyer type (e.g. the price they would be willing to pay) given current tax settings and more 'neutral' tax settings.

There are a number of assumptions made in such an exercise. Importantly, we assume that the impact of tax was on house prices rather than rents. This reflects a world of completely restricted land supply, so should be viewed as an upper bound on the impact of tax distortions on house prices.[9]

The tax system is complex in practice and tax settings need to take into account other factors like the ability to operationalise tax policies. Therefore, it may not be feasible to impose truly 'neutral' tax settings. The purpose of this exercise is simply to understand the extent to which tax distortions may be a factor in house prices, where land supply is restricted.

[9] Another key assumption is that landlords will retain property over 10 years and, therefore, are not taxed on capital gains. This exercise also focuses on the tax impacts on purchasing a completed property. As such, tax impacts on the development and construction stages of supplying housing are not considered. We also assume that the alternative investment is a term-deposit.

The distortions we focus on are: (i) the lack of tax on real capital gains, (ii) the lack of tax on 'imputed' rent for owner-occupiers, (iii) the impact of tax on nominal interest for alternative investments (rather than real interest), and (iv) the impact of not being able to deduct real mortgage interest.

We assess these distortions over four time periods to provide a range of estimates given different interest and inflation rates. These show that tax distortions are relatively small in 2002 when interest rates were much higher. By 2021, the impact of tax distortions had grown significantly. This is largely due to the interaction between tax settings, interest rates and inflation. In a low interest rate environment, tax distortions are significantly amplified.

Table 2 Impacts of tax distortions on house values for each buyer type

Estimates with current tax settings (Estimates with 'neutral' tax settings)				
Date	**Q2 2002**	**Q2 2011**	**Q2 2016**	**Q2 2021**
Inflation rate	**π = 1.8%**	**π = 2.5%**	**π = 2.1%**	**π = 2.0%**
Interest rate*	**i= 5.6%**	**i= 5.4%**	**i= 4.1%**	**i= 3.5%**
Landlord Equity financed	$169,031 **($114,495)**	$289,709 **($185,365)**	$438,582 **($261,808)**	$680,901 **($379,377)**
Landlord 60% debt**	$164,869 **($112,175)**	$276,188 **($179,021)**	$435,601 **($261,950)**	$431,979 **($400,966)**
Owner-occupier Equity financed	$189,161 **($89,753)**	$278,309 **($141,369)**	$367,980 **($185,213)**	$516,949 **($255,797)**
Owner-occupier 80% debt	$170,501 **($135,703)**	$270,154 **($217,032)**	$431,129 **($330,242)**	$741,250 **($531,450)**

* The inflation rate is the expected inflation over the longest available period, based on Aon Hewitt and Reserve Bank surveys on inflation expectations. The interest rate is the expected return on term deposits over the long-term, which is derived using the Reserve Bank mean estimate for the neutral OCR.

** For leveraged landlords we remove nominal interest deductions for Q2 2021 to reflect the announced tax changes around interest deductibility. This is assuming that the investor will purchase an existing property, as new builds are exempt for 20 years.

7. Regional housing markets are connected, and key housing issues are national in scale rather than local.

The cost of housing can have a significant impact on regional migration. The strong growth and high level of house prices in Auckland and other main centres has increased internal migration to regional centres. In many regional centres, experiencing growth for the first time in decades, supply has not responded, leading to sharp increases in prices, rents and housing stress for existing residents.

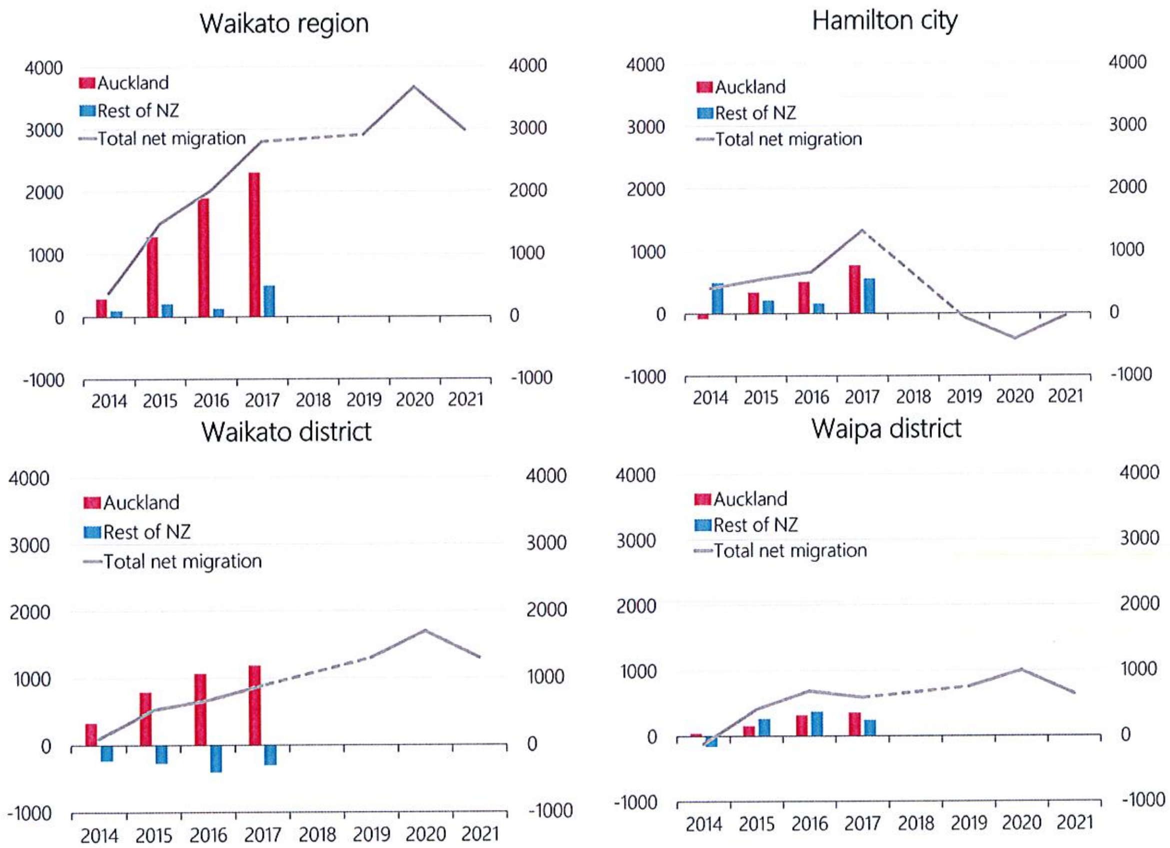
When there is a material shift in the overall benefits from living in one city compared to another, people are incentivised to relocate to the city that makes them better off. Benefits of a city include high wages and access to amenities; costs of a city include congestion (i.e., traffic) and high house prices or rents. Therefore, actions to improve land supply and housing affordability in one place may be offset by migration from places with higher housing costs.

Analysis of the Hamilton-Waikato Area

Demand for housing in the Hamilton-Waikato area has been heavily influenced by the Auckland housing market, illustrating that New Zealand's regional housing markets are connected and that key housing issues are national in scale rather than local.

Figure 8 shows that Auckland has been the main source of net internal migration into the Waikato Region, while the rest of New Zealand did not contribute much.

Figure 8 Internal migration to Hamilton and Waikato



Source: Stats NZ.

The increase in house prices and rents across the Waikato region lagged the rise in Auckland house prices by a couple of years. The population flow between Auckland and the Waikato Region contributed to this, but it is not sufficient to explain the rise in house prices in the Waikato. It simply outlines that housing markets are connected.

Owner Occupiers

The house price gap between Hamilton and Auckland is strongly correlated with the percentage of homeowners selling up in Auckland and moving to Hamilton. The price gap widened rapidly from 2010 to 2015 (Figure A5). During this period, the proportion of house movers from Auckland also increased, from 8% in 2010 to 19% in 2015 (Figure A6). The price gap closed slightly between 2015 and 2019, and during this time the percentage of Auckland movers also dropped.

First Home Buyers and Investors

The increased price difference with Auckland appears to have also influenced first home buyers and investors to move to or invest in Hamilton City and the Waikato District (Figure A7). The upward trend in first home buyers in Hamilton City and the Waikato District is consistent with migration from Auckland.

Renters

We have not found a relationship between the rent price gap and renters moving from Auckland to the Waikato or vice versa. One possible explanation is that the cost to benefit ratio between the two cities remained similar for renters. This means that the difference between rents, amenities and wages may have remained similar between cities so there was no incentive for movement in either direction, unlike first home buyers and movers.

8. The recent and ongoing increases in mortgage interest rates are likely to dampen house prices.

Our key conclusion is that, in the context of restricted land supply, interest rates are a key driver of house prices. It follows that the recent sharp rise in mortgage rates is the main cause of the recent decline in house prices, and are likely to dampen house prices further.

Because rents are more clearly related to the local balance of supply and demand for dwellings than house prices, we expect a moderation in rent price inflation at a national level. Since 2020, population growth has been very low and construction activity has accelerated. This combination is diminishing the housing shortage that built up last decade, and in time this partial alleviation of the housing shortage is expected to reduce the rate of rent inflation.

The change in supply/demand balance is also expected to have some dampening effect on house prices. In our framework, house prices are influenced by their rental value. If rent growth falls, the value to both private investors and owner occupiers is lower than otherwise. However, in our assessment the impact of the changing balance of supply and demand for dwellings will be much smaller than the impact of rising interest rates, so far as house prices are concerned.

Recent policy changes such the removal of tax deductibility will also reduce the financial benefits of property ownership over the medium term.

In the long-run, reforms to increase land supply (i.e., Resource Management Act reforms, NPS-UD, and Medium Density Residential Standards) will likely moderate land and house prices. This is supported by the Cost-Benefit Analysis for the Medium Density Residential Standards.[10] However, house price moderation from long-term reforms is highly dependent on factors which are not covered in detail in this analysis, such as local council support and the provision of infrastructure for growth.

Even with reforms to improve land supply, future changes in interest rates will still likely impact house prices, albeit to a less extent as land supply improves. This means financial factors will continue to influence purchase affordability and wealth distribution in the long run.

9. Based on how the housing market currently functions, we have identified key areas of opportunity that would support the Government's housing objectives.

Land supply needs to be more responsive to demand. This is the focus of policies and reforms including the Resource Management Act reforms, NPS-UD, the Urban Growth Agenda and for development on iwi land through MAIHI Ka Ora – the National Māori Housing Strategy. To succeed, these interventions depend on local council support and ensuring that infrastructure can be funded and financed.

To enable more responsive land supply policymakers and planners should make explicit the interactions between housing and other priority areas including food production, climate adaptation, emissions reductions, and maintaining heritage/character, and ensure decisions are well evidenced. In many instances, other objectives could limit land available for development, or increase the cost of developing it. Assessing the efficacy of land-use restrictions and balancing these against the need for more affordable housing is vital. Developing better assessment and monitoring metrics will help us to manage these interactions and to identify synergistic opportunities when making decisions.

Deposit affordability for first home buyers will remain a challenge in the medium term, and there may be different ways to overcome the deposit barrier for borrowers who can otherwise service a mortgage.

Policymakers may wish to revisit the question of taxation as it relates to housing. Historically, there has been a concern that removing tax distortions that favour housing could reduce new housing supply or lead to higher rents. However, as many New Zealand land markets are currently at the more restricted end of the spectrum, it is more likely that tax changes would affect house prices rather than rents or supply. However, it will be important to understand how the impact of tax interventions will change over time if land supply is made more abundant.

As regional housing markets are connected, solutions should be national in scale.

If land supply becomes significantly more abundant, price-setting dynamics will change. Therefore, how Government and Reserve Bank interventions impact the housing market will also change. It is important to continue researching how restricted New Zealand land markets are currently, and how that is changing over time.

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10 PWC and Sense Partners, Cost-Benefit Analysis of proposed Medium Density Residential Standards, https://environment.govt.nz/assets/publications/Cost-benefit-analysis-of-proposed-MDRS-Jan-22.pdf

10. **There is no simple and complete solution to solving the housing crisis. This year the three agencies plan to get a better understanding of the relative impacts of policies on housing outcomes and the interactions with other priorities.**

The three agencies are interested in how housing drivers interact with each other and with recent policy changes. A key challenge will be making sense of the relative impact of future policies and how key choices are being made to help improve wellbeing outcomes for New Zealanders. We plan on investigating topics including the drivers of rents; indicators of land supply responsiveness; and access to finance in the development market including on iwi land.

Restricted land supply is a key issue in the housing market, so we plan on developing land performance metrics to better understand and help improve the supply of developable land in key urban areas. However, our problem is not simply one of making land supply more abundant, but doing so in the context of Māori aspirations and our Treaty obligations, geographic limits, climate change considerations, status-quo bias, existing and planned infrastructure, and significant constraints to the funding and financing of growth as well as other barriers.

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Assessment of the Housing System: with insights from the Hamilton-Waikato Area

Additional Charts

Decline in Rental Affordability, and a Lack of Available Rentals has had Significant Impacts on Wellbeing

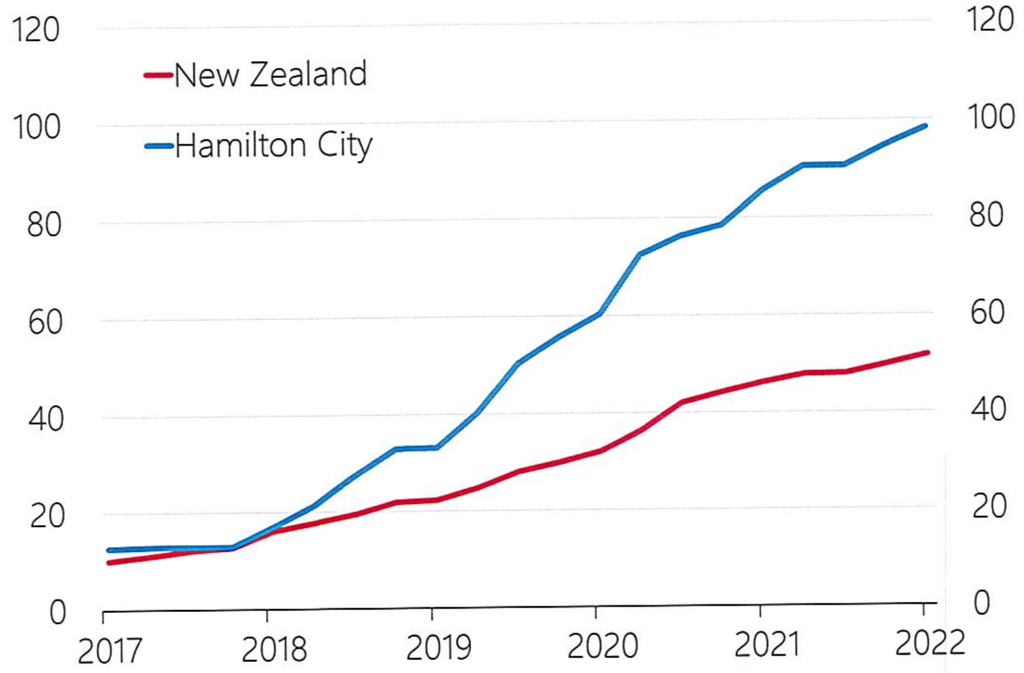

Figure 1 – Housing register applicants: Hamilton City and New Zealand (per 10,000 population)

Source: MSD. Note: The Housing Register contains applicants not currently in public housing who have been assessed as eligible and who are ready to be matched to a suitable property.

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Construction Costs Have Increased But Not As Much As Prices

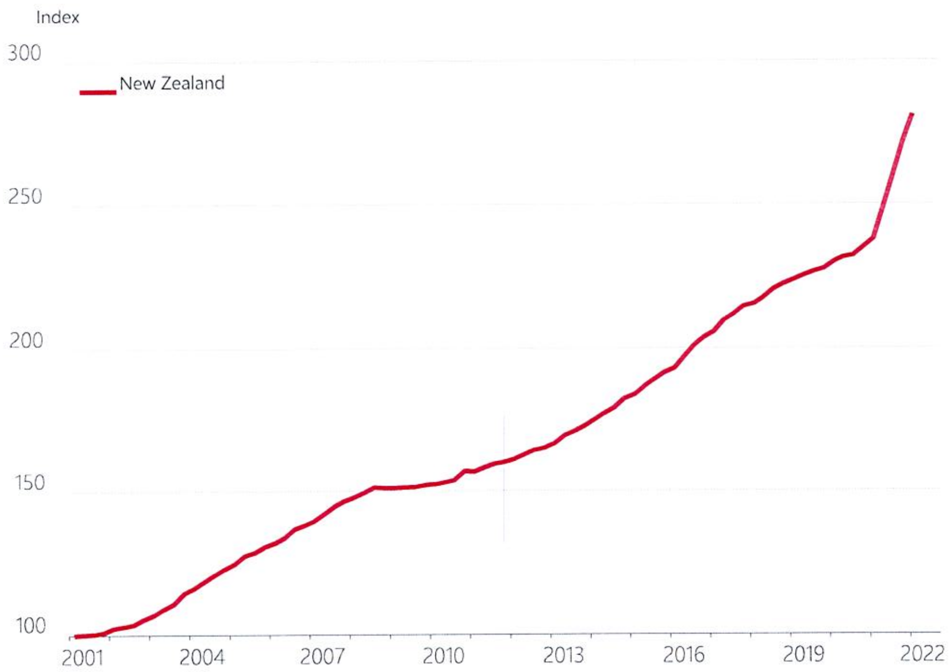

Figure 2 – CPI purchase of new housing for New Zealand

Source: Stats NZ.

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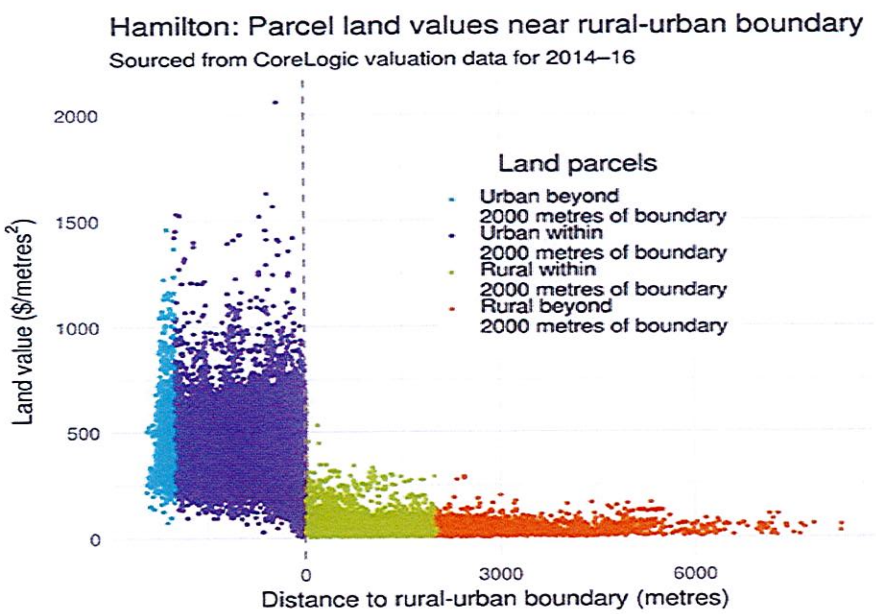
Urban Land Markets in Hamilton/Waikato are not Well Functioning

Figure 3 – Hamilton: Parcel land values near rural-urban boundary



Source: CoreLogic.

If there are large differences in the value of similar sites with different zoning, this may indicate that land use regulations, infrastructure funding, planning policies, or some combination result in insufficient development capacity for urban uses.

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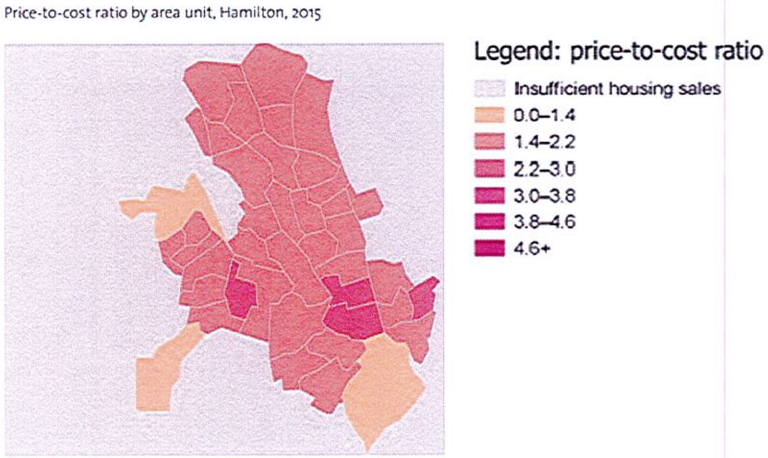
Urban Land Markets in Hamilton/Waikato are not Well Functioning

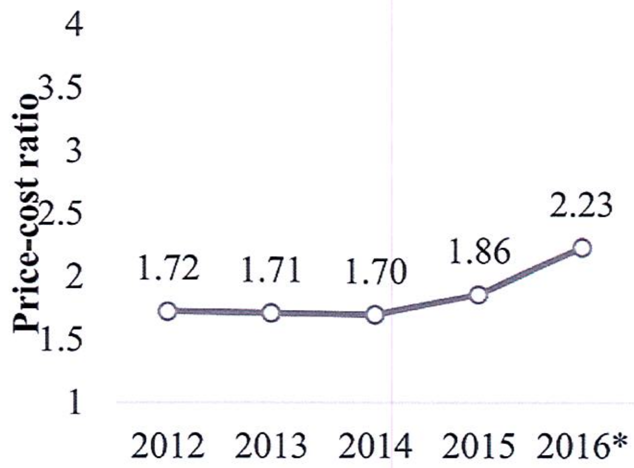
If the ratio of house prices to construction costs is high and rising, this indicates land markets may not be well functioning due to constraints on urban expansion and/or barriers to developing or intensifying existing urban land.

Figure 4A – Hamilton: Price-to-cost ratio by area unit



Source: Lees (2019).

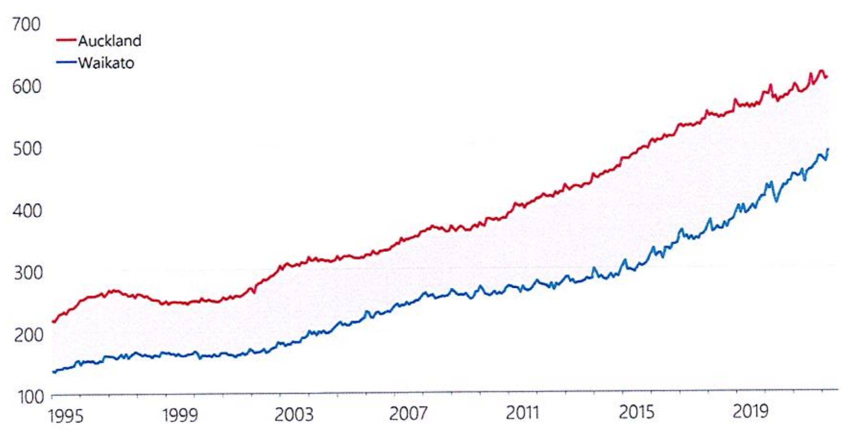
Figure 4B – Hamilton: Price-to-cost ratio



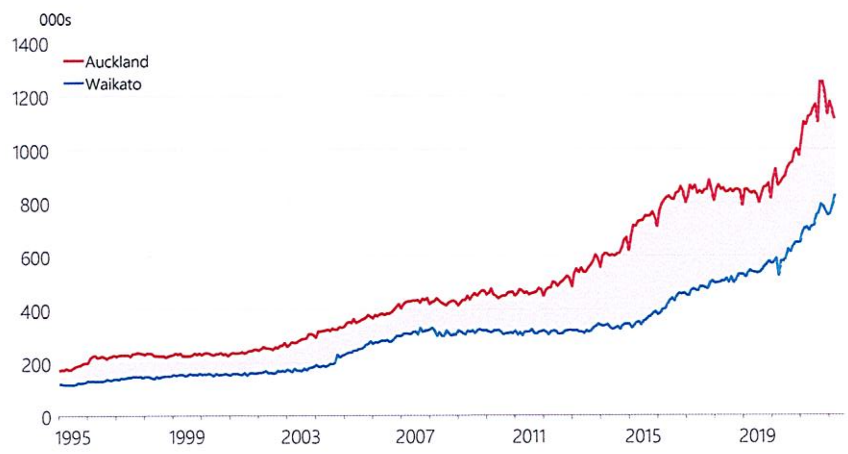
House Price Gap Between Auckland and Waikato has Widened Significantly for the Past 10 Years, While the Difference in Rental Price has Been Fairly Consistent

Figure 5 – Auckland and Waikato: Geometric weekly rent and Median sale price

Geometric weekly rent difference



Median sale price difference



Source: HUD calculations from CoreLogic and Tenancy Bonds data.

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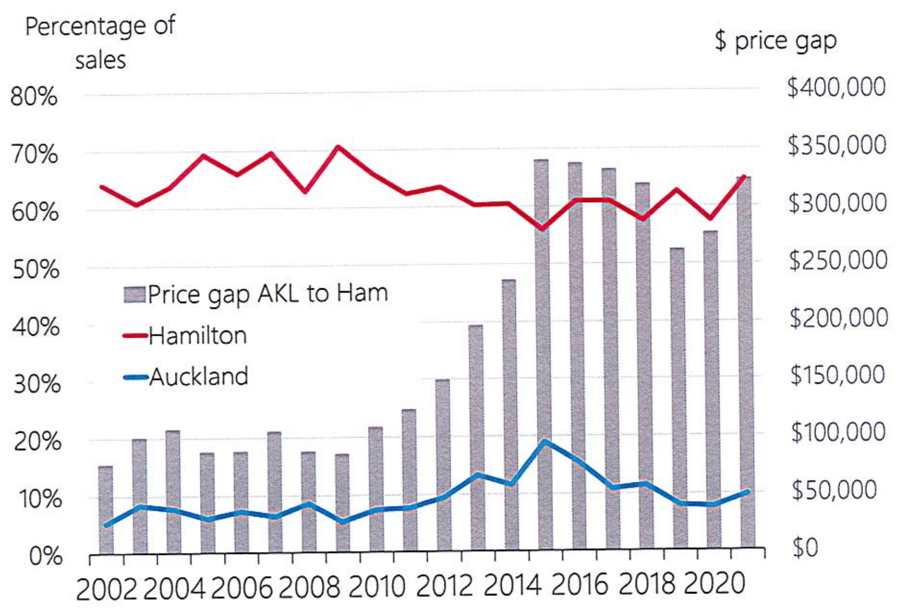
The House Price Gap Between Hamilton and Auckland is Strongly Correlated with the Percentage of Hamilton Movers Coming from Auckland

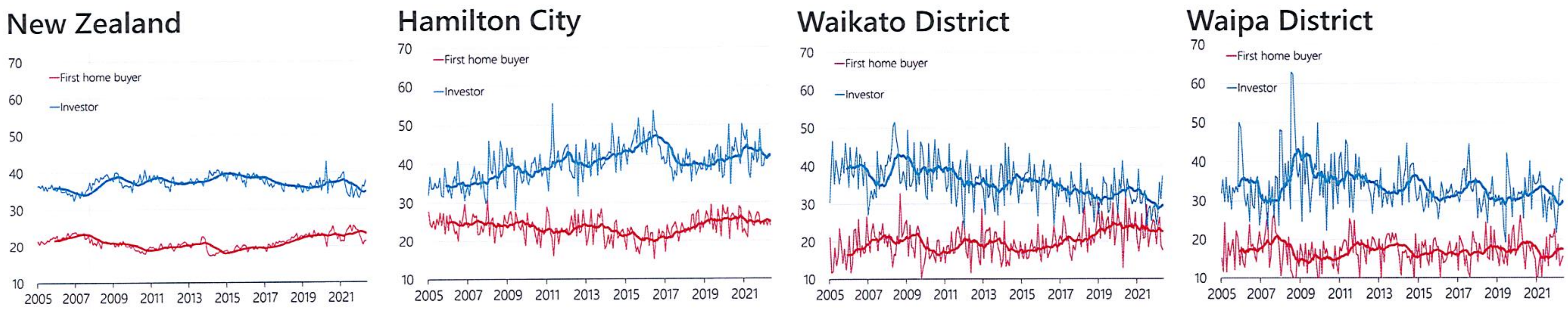


Source: HUD calculations.

Figure 6 – House price gap between Hamilton and Auckland, compared with percentage of Hamilton movers coming from Auckland

While Buyers Were Moving to Hamilton City, the Investor Share Also Increased

Figure 7 – Property investor activity: Hamilton, Waikato, Waipa, and New Zealand (proportion of transfers)



Source: HUD calculations from CoreLogic data.

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