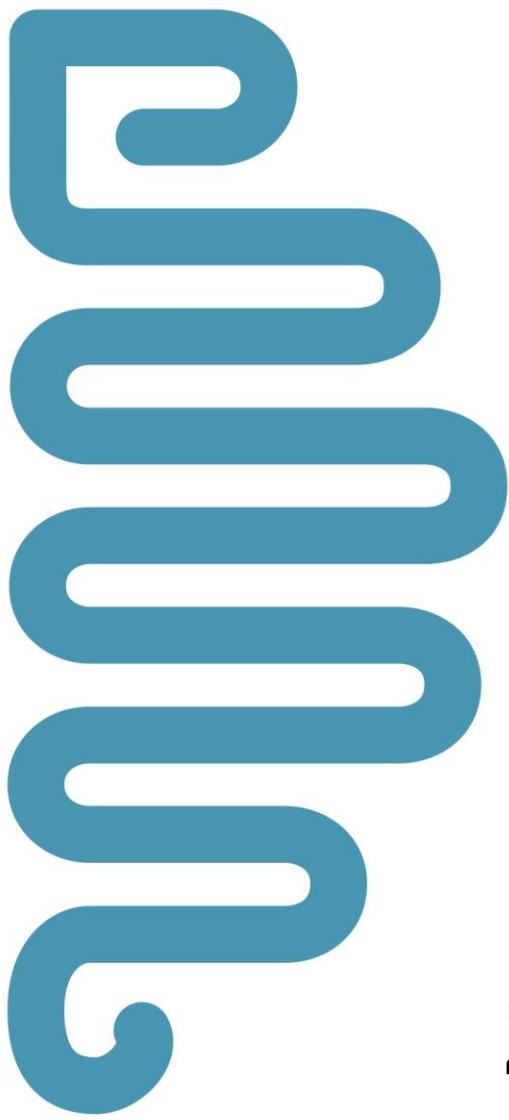


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# Inclusionary Zoning

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The evidence from  
Queenstown

Report | 3 April 2017

Prepared for Community Housing Aotearoa



**SENSE PARTNERS**

DATA LOGIC ACTION



## Executive summary

Inclusionary zoning – the rules that require affordable housing in new developments—raises fears of a negative impact on neighbouring properties.

We analysed detailed house price data from Queenstown for 2008-2016 and found no significant negative impact on house price changes. The difference in house price gains between 2008 and 2016 of properties neighbouring affordable houses varied from the rest of the area by -0.1%pa to +0.4%.

Inclusionary zoning – used with care – can be a short-term salve when there is:

- a shortage of affordable housing; and
- a backdrop of strong population growth, and
- housing supply is slow to respond

Inclusionary zoning policies should be self-limiting: triggered only on the back of formal housing assessments of inadequate affordable housing supply, measured against objective definitions agreed by the local community, or national standards.

The long-term solution is to ensure that infrastructure ready land supply is responsive to demand – this requires much better use of planning regulations, infrastructure investment and deterring land banking.

Regulators should pay heed to other concerns from neighbours of affordable housing, particularly around the impact of design and density on neighbourhoods, and not to overly concentrate affordable housing in one location.

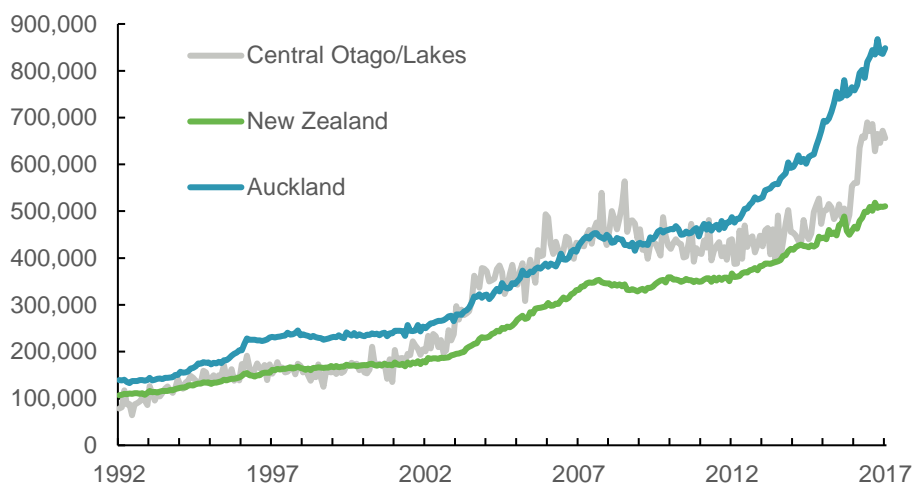
*The report was prepared for Community Housing Aotearoa by Shamubeel Equb ([Shamubeel@sense.partners](mailto:Shamubeel@sense.partners)) at Sense Partners and peer reviewed by Dr. Kirdan Lees.*



## Housing supply and affordability

House prices have risen faster than incomes in many parts of New Zealand. There are many causes,<sup>1</sup> but the most relevant to the discussion in this report is slow and insufficient housing supply.

FIGURE 1: MEDIAN HOUSE PRICE, SELECTED REGIONS, SEASONALLY ADJUSTED



Source: REINZ

When housing supply does not keep pace with demand, prices increase. This has a disproportionate impact on low-income and low-wealth households, who are locked out of the housing market. This leads to overcrowding, displaced workers and families, and various social and economic issues.

There are no perfect measures of housing responsiveness or the impact of slow housing supply responsiveness on overcrowding for example. But growing household size can be used as a rough guide. Because of an ageing population in New Zealand household size is getting smaller, even in relatively young but ageing places like Auckland. That means growing household size may indicate overcrowding because of unaffordable housing and supply unresponsiveness.

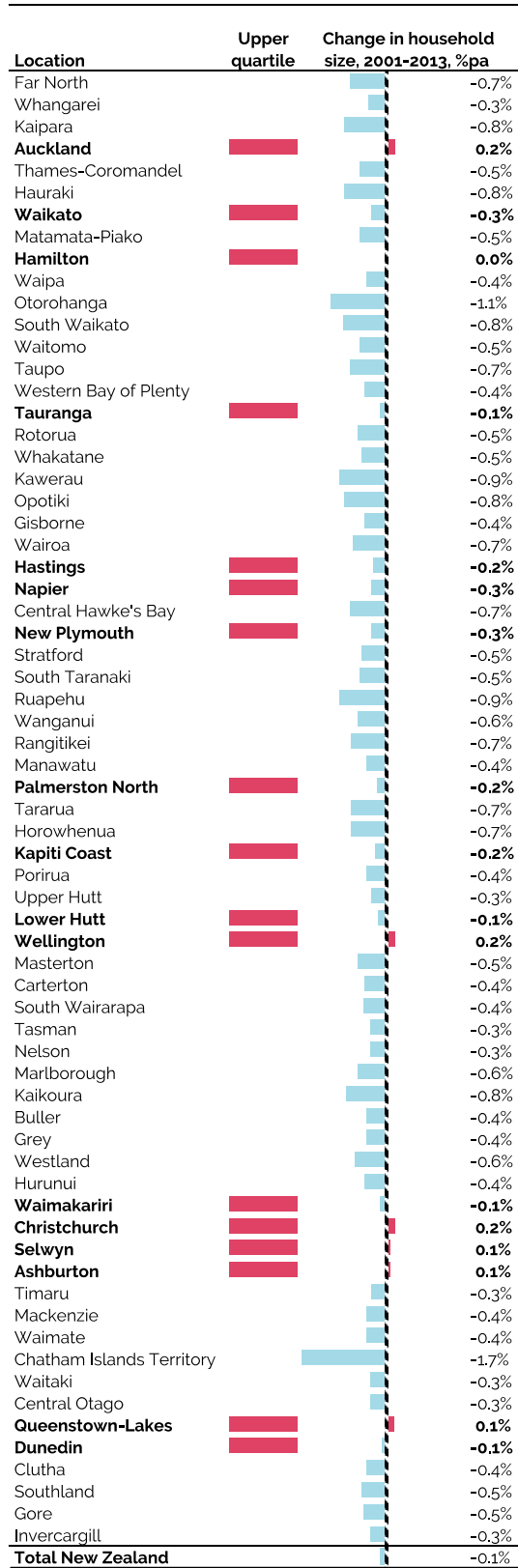
In Figure 2, we highlight the administrative regions where household size change is in the upper quartile for New Zealand. Unsurprisingly, these places tended to have strong population growth and high housing costs, which was not met by sufficiently housing supply at an affordable price. The most constrained are Auckland, Wellington, Queenstown-Lakes and earthquake affected Canterbury.

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<sup>1</sup> See the New Zealand Productivity Commission's (2012) work on housing affordability as well as Equb & Equb (2015) "Generation Rent", BWB Texts.



FIGURE 2: CHANGE IN HOUSEHOLD SIZE, AS PROXY FOR HOUSING RESPONSIVENESS



Source: Sense Partners analysis of Statistics NZ Census data



The administrative regions highlighted in Figure 2 are cities where further investigation is warranted and where an inclusionary zoning response may be a useful tool to address an undersupply of affordable housing.

We would argue that planning regulations, the approach to infrastructure provision and land-banking are issues that can affect all parts of the country. But these issues manifest in unaffordable housing in places where there is population or demand growth.

In an ideal world, housing supply is very responsive to demand. There is sufficient supply of housing to grow total supply. Even if much of the new supply is near to the top end of the market, sufficient supply of second-hand stock is available for lower-income and lower-wealth households.

The real world is different. Because of structural frictions in the supply of housing, that could be related to planning, infrastructure provision, land banking and other factors, there has been a sustained undersupply in several housing markets in New Zealand.

The accumulated undersupply cannot be solved easily or quickly. The use of a broad approach, by encouraging more housing supply, will tend to favour larger and more expensive homes. This means that the affordable end of the market remains undersupplied for a long period of time – until supply shortages are largely resolved.

Inclusionary zoning, which requires new developments provide a component of the new supply that is affordable, ensures that any new supply also meets the needs of low income and low wealth citizens.

The planning provisions usually require retention of the affordable housing in the social sector, or similar. Otherwise, the affordable stock enters the broader market and the price is bid up unless there is sufficient supply relative to demand (the original problem).

Because affordable housing usually returns a lower margin than larger and more luxurious houses, the planning rules usually compensate the developer with additional density provisions within design and amenity guidelines.

Inclusionary zoning is a necessary tool only when housing supply has been unresponsive for some time. It should not be required in every administrative region, nor a permanent feature. Because inclusionary zoning should be self-limiting, triggered on the back on a formal housing needs assessment, against an objective set of metrics agreed by the local community or national standards. In these circumstances, inclusionary zoning can provide the vehicle to supply affordable housing, when the market in the prevailing regulatory and commercial environment would not provide enough housing for everyone.



# Inclusionary zoning impact on neighbourhood

Inclusionary zoning has been used in many jurisdictions around the world. There is usually strong opposition from local residents, who fear:

- The potential impacts on property values and other valued aspects or features of the host neighbourhood, and increases in crime and a deterioration in safety
- The characteristics and behaviours of prospective residents
- Physical form (bulk, style, density) of the proposed development, its ongoing maintenance and the process for planning assessment.

This report considers the first concern: the impact of affordable housing on neighbouring properties. We looked at Queenstown, which has used inclusionary zoning in recent years. We found no significant variation in house price increases in Queenstown between houses neighbouring affordable properties and control groups.

Our results are consistent with international evidence, which show very minor impact of inclusionary zoning on neighbouring properties. We did not analyse the design characteristics or resident selection policies. Given no significant variation in house price changes, there was no reason to consider any negative impact from the Queenstown policies and practices. It may suggest that these policies and practices have been effective, but further work is required to quantitatively assess this.

## The Queenstown case study

We use Queenstown as our case study of inclusionary zoning. The policies and practices in the Queenstown Lakes District that led to a supply of retained affordable homes started in 2004 and continues today.

Inclusionary zoning is an umbrella term for a variety of actions, including 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 memorialized through a set of objectives, policies and rules into the District Plan in 2013. The process utilises a local not for profit entity, the Queenstown Lakes Community Housing Trust as the recipient of the contributed land, so that it can delivery retention of affordability through rental or shared ownership for eligible households.

Central government policy and funding have also been coordinated through the Council and Trust for a joined- up effort. Together, it is this combination of actions to with the term "inclusionary zoning" is used in this report.



## Our approach to evaluating property price impact

We analysed data for the Queenstown area, compiled by *DataInsight* on affordable houses built under inclusionary zoning rules. There are good international comparisons of this kind of analysis. We based our work on literature for Australia and USA, but it was not possible to fully replicate their work due to data limitations.

The literature compares the change over time of house prices in properties that neighbour inclusionary zoning housing (within some radius), and changes over time of house prices in the wider neighbourhood.

Our analysis focussed on houses within 150m of affordable houses provided under inclusionary zoning (but excluding the affordable housing), and other houses in the area broken down by number of bedrooms and type (detached or apartments). We looked at the change in house prices between 2008 and 2016, and we compared the 'neighbour' group of houses against 'control' groups. We exclude any samples with less than 10 sales.

The comparisons need to be made with care. The houses in the 'neighbour' group tend to be of low price, more comparable to the lower quartile for the broader area that we use as the 'control' group. We also approximated the control group's price based on the number of bedrooms and statistical distribution properties to estimate the increase in house prices as if it had started from the 'neighbour' group's median price.

## Results: insignificant impact on house prices

The results are summarised in Figure 3 and Figure 4. In Figure 3, we summarise the results across all our sample areas. In Figure 4, we provide the results for each area by number of bedrooms.

House prices rose sharply across all our regional samples. This includes the group of houses neighbouring affordable houses and the control groups.

We found that on average the 'Neighbour' properties increased in value by around 0.4%pa *more* than the control group. The inter-quartile range is -0.1%pa to +0.4%pa.

Our sample is too small for the differences in prices to be statistically significant. However, the range suggests that the difference in house price changes between 'Neighbour' and 'Control' groups is insignificant.

Our results are consistent with international evidence, which show very minor impact of inclusionary zoning on neighbouring properties. In Australia, the most recent and comparable analysis suggests a very small negative impact on neighbouring properties within 100 metres of affordable housing (Davison et al, 2016). There is a small positive impact on properties further away from the affordable housing, but that may be due to other factors.



FIGURE 3: SUMMARY OF IMPACT OF INCLUSIONARY ZONING ON NEIGHBOURING PROPERTIES

	<i>'Neighbour' properties vs:-</i>		
	Control: estimated <sup>(1)</sup>	Control: 25th percentile <sup>(2)</sup>	Control: 50th percentile <sup>(3)</sup>
Minimum	-1.3%	-1.3%	-1.7%
Lower Quartile	-0.1%	-0.1%	-0.3%
<b>Median</b>	<b>0.4%</b>	<b>0.3%</b>	<b>0.3%</b>
Upper Quartile	0.4%	0.4%	0.5%
Maximum	1.3%	1.1%	1.3%

Notes:

(1) 'Control' - estimated: 'Control' properties are those outside the 150m radius of housing provided under inclusionary zoning. Because the 'Neighbour' properties tend to be lower value, we estimate the price change in 'Control' properties if their starting price was the same as 'Neighbour' properties.

(2) 'Control' - 25th percentile: The 25th percentile price of 'Control' properties. Usually similar to 'Neighbour' prices.

(3) 'Control' - 50th percentile: The 50th percentile, or median, of 'Control' properties. Usually higher than 'Neighbour' prices.

Source: Sense Partners analysis of data provided by DataInsight.





FIGURE 4: THE IMPACT OF INCLUSIONARY ZONING ON NEIGHBOURING PROPERTIES

Bedrooms	Change in house price, 2008-2016, %pa				Difference in 'Neighbour' properties from 'Control'			
	2	3	4	5	2	3	4	5
<b>ARROWTOWN AND LAKE HAYES</b>								
Neighbour <sup>(1)</sup>	6.7%	5.7%	5.1%	4.9%				
Control - estimated <sup>(2)</sup>	7.0%	6.4%	5.5%	4.4%	-0.3%	-0.7%	-0.4%	0.5%
Control - 25th percentile <sup>(3)</sup>	7.1%	6.4%	5.4%	3.8%	-0.4%	-0.7%	-0.4%	1.1%
Control - 50th percentile <sup>(4)</sup>	7.0%	6.3%	5.4%	3.3%	-0.3%	-0.7%	-0.3%	1.7%
<b>ARTHURS POINT</b>								
Neighbour <sup>(1)</sup>	-	4.5%	4.9%	4.1%				
Control - estimated <sup>(2)</sup>	-	5.1%	4.5%	2.7%	-	-0.6%	0.4%	1.3%
Control - 25th percentile <sup>(3)</sup>	-	5.2%	4.5%	3.7%	-	-0.7%	0.4%	0.4%
Control - 50th percentile <sup>(4)</sup>	-	5.0%	4.7%	2.7%	-	-0.4%	0.1%	1.3%
<b>QUEENSTOWN AND NEARBY</b>								
Neighbour <sup>(1)</sup>	6.0%	5.0%	5.1%	4.1%				
Control - estimated <sup>(2)</sup>	5.6%	5.5%	5.1%	5.4%	0.5%	-0.5%	0.0%	-1.3%
Control - 25th percentile <sup>(3)</sup>	5.6%	5.6%	5.1%	5.5%	0.5%	-0.5%	0.0%	-1.3%
Control - 50th percentile <sup>(4)</sup>	5.6%	5.3%	5.7%	5.9%	0.4%	-0.3%	-0.6%	-1.7%
<b>WANAKA</b>								
Neighbour <sup>(1)</sup>	-	4.4%	4.3%	-				
Control - estimated <sup>(2)</sup>	-	4.0%	3.4%	-	-	0.4%	0.9%	-
Control - 25th percentile <sup>(3)</sup>	-	4.0%	3.3%	-	-	0.4%	1.1%	-
Control - 50th percentile <sup>(4)</sup>	-	4.0%	3.2%	-	-	0.4%	1.2%	-
<b>WANAKA SURROUNDS</b>								
Neighbour <sup>(1)</sup>	4.0%	3.7%	3.9%	-	0.4%	0.2%	0.4%	-
Control - estimated <sup>(2)</sup>	3.6%	3.5%	3.5%	-	0.4%	0.2%	0.3%	-
Control - 25th percentile <sup>(3)</sup>	3.7%	3.5%	3.6%	-	0.5%	0.2%	0.6%	-
Control - 50th percentile <sup>(4)</sup>	3.6%	3.5%	3.3%	-				

Notes:

(1) 'Neighbour': Houses within 150 metres of affordable housing provided under inclusionary zoning.

(2) 'Control' - estimated: 'Control' properties are those outside the 150m radius of housing provided under inclusionary zoning. Because the 'Neighbour' properties tend to be lower value, we estimate the price change in 'Control' properties if their starting price was the same as 'Neighbour' properties.

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(4) 'Control' - 50th percentile: The 50th percentile, or median, of 'Control' properties. Usually higher than 'Neighbour' prices.

Source: Sense Partners analysis of data provided by DataInsight.



## Other considerations

While our analysis finds no significant negative impact of affordable housing on neighbouring properties, regulators should pay heed to local residents' concerns on amenity value, law and order, and externalities associated with density and design.

While not all these concerns bear out in international evidence, understanding and dealing with residents' concerns is important to ensure community cohesion.

International evidence also suggests overly concentrating affordable housing can lead to ghettoization of neighbourhoods, which can lead to poor social and economic outcomes. Dispersing inclusionary zoning across a broad geographic area tends to have better results.

Regulators should carefully develop a package of policies and practices that ensure good design and density outcomes consistent with the local context, to result in good long term outcomes.

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# WAVE



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