

Affordable Housing and Queenstown Lakes Proposed District Plan

Issues and Options

June 2021

Project name:	QLDC Affordable Housing	
Document reference:	Issues and options report	
Date of this version:	Version 21 June 2021	
Status of report:	Final for consultation	
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Table of Contents

Contents

1	EXECUTIVE SUMMARY	1
2	INTRODUCTION	2
3	AFFORDABILITY IN CONTEXT	3
3.1	HOPE Strategy	3
3.2	Plan Change 24	4
3.3	2017 Mayoral Taskforce	5
3.4	Previous planning tools	6
3.4.1	Stakeholder agreements – private plan changes under the RMA	6
3.4.2	Special Housing Areas	8
3.5	Current State	10
4	QUEENSTOWN LAKES HOUSING MARKETS	14
4.1	QLD housing capacity	14
4.2	Specific market conditions	15
5	AFFORDABLE HOUSING AND PLANNING	17
5.1	Mountain resorts and affordable worker housing	17
5.1.1	Resort Municipality of Whistler, BC, Canada	18
5.1.2	Aspen and Pitkin County, Colorado	18
5.1.3	Town of Vail and Eagle County, Colorado	18
5.2	Metropolitan approaches	19
6	NON RMA OPTIONS.....	21
6.1	Local Government Act	21
6.1.1	General or targeted rates	21
6.1.2	Development contributions	21
6.1.3	Partnerships, advocacy	22
6.1.4	Discussion	22
7	DEVELOPING AN RMA TOOL	23
7.1	Council's powers under the RMA	23
7.1.1	Plan Change 24	23
7.1.2	Recent RMA amendments	24
7.2	Resource management issues	25

Final for Public Consultation - Not QLDC Policy - July 2021

7.3	Effects Management	27
7.3.1	Inclusionary vs linkage	27
7.4	Costs and benefits	28
7.4.1	More land?	28
7.4.2	Will it affect housing supply?	29
7.4.3	Cost and benefits.....	30
8	RMA OPTIONS	32
8.1.1	Option 1 part 1: Additional supply / reduce controls (status quo).....	32
8.1.2	Option 1, part 2: Negotiate at Plan Changes (status quo).....	33
8.1.3	Option 2: Bonus / incentives.....	34
8.1.4	Option 3: Targeted mandatory contribution	34
8.1.5	Option 4: Modest mandatory contribution across the district	35
8.2	Discussion	36
9	DEVELOPING ISSUES AND OBJECTIVES FOR AFFORDABLE HOUSING	37
9.1	Current PDP Issues and Objectives	37
9.2	Constructing issues statements	37
9.2.1	Dimensions	38
9.2.2	Possible issues statement:	38
9.3	Constructing an Objective.....	39
10	NEXT STEPS	41
10.1	Section 32.....	41
10.2	Alternative Implementation Routes	41

1 Executive Summary

The purpose of this Issues and Options report is to review the background to affordable housing needs in the Queenstown Lakes District, outline current policy to increase the supply of affordable housing, and identify possible new and/or additional methods under the Resource Management Act that could be incorporated into the Proposed District Plan.

Access to affordable housing is a major and long standing issue for the Queenstown Lakes District community. Constrained housing affordability has a range of social, economic and environmental consequences.

To date the Council has used a number of tools to increase access to affordable housing for low to moderate income households, including establishing and supporting the Queenstown Lakes District Community Housing Trust, as well as negotiating specific provisions requiring the transfer of land and/or housing to the Trust in district plan changes that rezone land from rural to residential.

The review of the district plan provides an opportunity to take a more comprehensive look at the links between the district plan and affordable housing. Inclusionary zoning (zoning rules that require a certain percentage of houses are sold at an affordable price in larger developments) are a common feature of many planning schemes in the US and UK. Australia has a number of examples that operate in metropolitan areas.

Evidence from Queenstown is that while ensuring an adequate supply of land for housing (greenfields and brownfields) is important to the overall operation of the housing market, this is not sufficient by itself to generate a supply of affordable housing. Feasible development capacity under the PDP is in excess of likely demand, yet house and land prices continue to escalate.

Council's powers under the Local Government Act to financially support affordable housing are limited. QLDC would likely face significant difficulties addressing the district's affordable housing issues through any of the mechanisms available to it under the LGA. Challenges arise from issues of legal scope (such as Development Contributions) or securing a long term mandate that can last through political cycles.

The Resource Management Act provides scope for an affordable housing policy to be applied to development, provided that the programme can be shown to be effective and efficient. Options range from a voluntary approach through to a mandatory requirement on all new residential development.

Any affordable housing provision must be tied back to the resource management issues facing the district, there must be some form of linkage or relationship between the proposed provision and effects generated by particular types or locations of development, while costs and benefits need to be considered.

The report recommends that a mandatory requirement be investigated in more detail. This could take the form of a targeted approach focusing on new residential subdivisions, or a broader based approach covering both greenfields brownfields areas.

2 Introduction

Access to affordable housing is a major and long standing issue for the Queenstown Lakes District (QLD) community. Constrained housing affordability has a range of social, economic and environmental consequences.

The Council and community have initiated a number of actions to promote and provide affordable housing, including establishing the Queenstown Lakes Community Housing Trust (QLCHT) and promoting a number of Special Housing Area developments which include affordable housing. A range of Resource Management Act (RMA)-based initiatives have also been used including various place specific plan changes and promoting more enabling District Plan provisions relating to residential zones.

It is generally acknowledged that addressing housing affordability must involve a wide range of actions. RMA-related actions can include enabling the supply of housing, but also (as demonstrated in a number of plan changes to the QLDC District Plan) a requirement on development to ensure delivery of a proportion of dwellings as affordable homes.

The cost of housing in the district continues to be the most unaffordable in New Zealand for a range of reasons, many of which would not be addressed through the provision of more land zoned for urban development. The Council has determined that the review of the QLDC District Plan (the 'PDP') provides an opportunity to assess what RMA approaches are justified and appropriate in helping to address the issue of access to affordable housing, in the specific local context of Queenstown Lakes district.

The purpose of this Issues and Options report is to review the background to affordable housing demand in the district, outline current policy, and identify possible new and/or additional tools under the Resource Management Act that could be incorporated into the PDP.

3 Affordability in context

This section briefly reviews previous and current assessments of housing affordability issues in the district.

Affordable housing is taken to mean housing where a low or moderate income household spends no more than 35% of gross income on rent or mortgage (principal and interest) repayments¹.

A lack of affordable housing has a range of social, economic and environmental consequences. These can be summarised as follows:

Social: reduction in social cohesion, stability due to churn in the community;

Economic: difficulty in attracting and retaining skilled workers to the area, high staff turnover;

Environmental:

- *pressure to address affordability by additional housing supply through urban expansion. The rezonings may affect landscapes and/or other environmental resources,*
- *displacement of housing demand to Central Otago District,*
- *additional traffic movements as workers commute from satellite areas such as Cromwell etc.*

3.1 HOPE Strategy

The 2005 QLDC HOPE Strategy² identified the long term issue of housing supply and affordability facing the district. It noted:

As the district develops and expands over the next 20 to 30 years, it will be important to build up a stock of affordable housing, so that when it becomes much more difficult to expand housing supply through zoning more land for urban development, a mechanism will be in place to offer affordable housing choices to residents.

A further important issue identified in the 2005 HOPE Strategy was how to retain, for the longer term, housing that is provided as affordable housing. There have been instances in the district where new housing subdivisions, promoted as being affordable, have been brought up by investors and prices have quickly escalated above what local, lower income households can afford. The Queenstown Lakes Community Housing Trust was identified as a key tool to ensure retention of affordable housing contributions.

¹ Mayoral Taskforce Report 2017: <https://www.qldc.govt.nz/media/ybgfq15v/mayoral-housing-afforability-taskforce-report-october-2017.pdf>

² 2005 HOPE Strategy: https://www.qldc.govt.nz/media/ayfhcet4/hope_affordable_housing_strategy.pdf

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The following RMA-related issues were identified in the HOPE Strategy:

- *Lack of affordable housing undermining the long-term sustainable growth of the district*

This issue relates to high market rental and home ownership costs making it increasingly difficult for median to low-income residents to find suitable accommodation in the district. This constraint has significant implications for the long-term social wellbeing of the district.

- *Adverse effects on the economic growth of the district from an inability to attract and retain a labour force.*

Many employers in QLD, including tourism businesses and service providers like schools and police, are experiencing difficulty in attracting employees. Anecdotal evidence is that a particular problem occurs retaining middle level staff who are interested in buying a house in the area, but often compare house prices in the area with that available in other larger employment centres. The turnover of staff involved harms economic development.

- *Urban sprawl as market searches for lower cost land on fringes of settlements*

A natural reaction of the marketplace to rises in land and house prices is to search for lower cost land on the fringe of settlements. In the case of the Queenstown / Wakatipu area, this approach conflicts directly with a desire to protect the outstanding and amenity landscape values of the area.

- *Increased impacts of transport as people travel longer distances*

This relates to the issue of urban displacement, with lower cost housing locating in satellite towns, where people have to travel further to get to work. This has implications for both public and private transport infrastructure as well as adverse effects on the environment from the trips generated.

3.2 Plan Change 24

Plan Change 24 (notified in October 2007) introduced an affordable housing requirement into the Operative QLDC District Plan. In relation to affordable housing and the RMA, the Plan Change 24 Issues and Options report³ noted the following:

³ Community Housing / Affordable Housing: Proposed Plan Change 24 Issues and Options Report Prepared by Hill Young Cooper Ltd and Tricia Austin, University of Auckland December 2006: https://www.qldc.govt.nz/media/bexm3dzk/pc24_attachment_2.pdf

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- Urban growth management policies (essential for sustainable management of the high quality natural environment in the district) limit the supply of land suitable for residential development. This pushes up land costs
- Commercial development increases local employment and hence the demand for housing, affordable to local workers, while market-rate residential development (often aimed at second home buyers and investors) also increases local employment demands and hence demand for housing, which is affordable to local workers
- The economic, social and environmental effects of an inadequate supply of affordable housing include impacts on businesses (difficulties with retaining skilled staff), community infrastructure (from high rates of turnover of people, reducing the strength of community networks and services) and the environment (from pressure for urban growth to expand into less costly, but more environmentally valuable, rural land)
- To date, market forces have not resulted in provision of an adequate supply of affordable housing
- Reducing rules and regulations to encourage greater market-provision of affordable housing would have to be extensive to produce enough affordable housing, and would result in additional adverse social, economic and environmental effects
- An urban containment strategy (which is necessary to avoid the adverse effects of development on nationally significant natural resources) has the potential to disable some people's economic and social wellbeing
- To ensure sustainable management of the district's resources, regulatory responses are needed to ensure that people and communities retain a range of options to provide for their wellbeing, within the overall framework of an urban containment strategy.

Plan Change 24 in the context of the RMA and PDP is discussed in more detail later in this document.

3.3 2017 Mayoral Taskforce

The 2017 Mayoral Taskforce on Housing Affordability⁴ stressed the social/community effects of high house prices. It stated: *The lack of quality affordable housing is potentially the greatest challenge our District faces. If our communities are to thrive, prosper and grow in the future we need to be able to attract and appropriately house the key workers, families and even retirees who are the core of our communities*⁵.

One recommendation of the Mayoral Taskforce was to explore mechanisms to achieve more affordable homes for the community through the District Plan, addressing what appears to be a failure of the market to deliver affordable housing (due partly to permanent structural features of this district) that cannot be addressed adequately by rezoning land alone. The QLDC Long Term

⁴ Mayoral Housing Affordability Taskforce, Queenstown Lakes District October 2017

⁵ Page 3, Ibid

Plan is also supportive of investigating ‘inclusionary zoning’ as a means to address access to affordable housing.

3.4 Previous planning tools

QLDC has used two primary tools to advance specific affordability goals, one under the RMA and the other associated with RMA planning under the now-expired Housing Accords and Special Housing Areas Act (HASHAA). These tools sit within a broader strategy of enabling supply through zoning changes.

3.4.1 Stakeholder agreements – private plan changes under the RMA

Stakeholder Agreements have been used by the Council to secure a portion of proposed new housing developments as an affordable housing contribution. These agreements are effectively voluntary agreements between the Council and the relevant landowner/developer and occur alongside a plan change process to rezone land for a higher density than the district plan otherwise allows.

To date the Council has reached agreement in 15 development areas in association with private plan changes. These are listed in table 2. The most common contribution rate is 5% of lots to be created. The outcome of these agreements only becomes enforceable if the plan change is approved and adopted by the Council, which is an entirely separate process. The agreement is binding to the land, to ensure that affordable housing contributions are secured, even if the development changes hands.

Table 1: Historic Affordable Housing Developer Agreement Deeds - May 2021

Status	Historic Stakeholder Deed	Basis for Calculation (%)	Result - Residential Units/Sections Provided	Units Provided as:
Developed and settled	Riverside Park – PC 12 (Wanaka)	5%	12	Land
Developed and settled	Peninsula Bay – PC 15 (Wanaka)	2%	7	Land
Developed and settled	Quail Rise ext /FF North – PC 37 (QT)	3%	1	Land
Developed and settled	Shotover Country – PC 41 (QT)	Negotiation	26	Land

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Status	Historic Stakeholder Deed	Basis for Calculation (%)	Result - Residential Units/Sections Provided	Units Provided as:
Developed and settled	Northlake – PC 45	Negotiation	2	Land
Partially settled	Jacks Point (QT)	5%	36*	Cash
Partially settled	Kirimoko – PC13 (Wanaka)	5%	17	Land / House cash
Partially settled	Northlake (Hikuwai) – PC 45 (Wanaka)	Negotiation	10	Land
Still to come	Mt Cardrona Station – PC 52 (ex PC 18) (Wanaka)	5%	8*	Land
Still to come	Kingston Village – PC 25 (QT)	N/A; mixed use	12	Land
Still to come	Three Parks – PC 16 (Wanaka)	N/A; mixed use	40	Housing units
Still to come	Wanaka Industrial – PC 36 (Wanaka)	4%	4% of retail value of 9.7Ha site	Cash
Still to come	Ballantyne Investments – PC 4 (Wanaka)	Negotiation	11	Housing units
Still to come	Ballantyne Rd Industrial – PC 46 (Wanaka)	Negotiation	6	Land
Still to come	Northlake / Allenby Farms – PC 45 (Wanaka)	Negotiation	3	Land

* Estimated – final yield to be determined

Generally, the agreements provide for transferral of a percentage of land area involved in the development, or the provision of a number of developed units to the same value in lieu of land (or

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combination of the two). In each case the land or units are transferred to the Queenstown-Lakes Community Housing Trust, in accordance with the council's policy. The Housing Trust then administers these properties on an ongoing basis.

In some of these agreements the Council seeks to ensure that sites are scattered throughout the development, and not concentrated in one location.

It is notable that since the Plan Change 24 provisions were scaled back in 2013 as part of the resolution of appeals, the number of stakeholder agreements has reduced.

3.4.2 Special Housing Areas

Special Housing Areas under the HASHAA 2013 is another example of an affordable housing requirement associated with RMA processes. Special Housing Areas sped up the consenting processes for identified residential developments and limit appeal rights. In return for this 'benefit' there was an expectation that some form of more affordable housing will be offered.

Council's policy on Special Housing Areas⁶ notes:

As guidance, the Council considers at least 10% of the residential component of the development by developed market value or by area (depending on the nature of the development) is identified for affordable housing.

The Policy further states that Council expects landowners and developers to identify appropriate mechanisms to ensure that housing developed in a special housing area addresses the district's housing affordability issues. An appropriate mix of housing is necessary in the district, including housing for owner-occupiers, first home buyers, and accommodation for workers. Examples of mechanisms to achieve affordability may include:

- a range of appropriately sized sections (including smaller sized sections of 240-400m²);
- a mixture of housing typologies and sizes is also desirable;
- the nature of any covenants (or similar restrictions) imposed on sections;
- methods to reduce property speculation of vacant sections; and
- methods to retain affordability in the medium to long term.

Housing developed in special housing areas are expected to not be used solely for visitor accommodation and landowners and developers should identify an appropriate legal mechanism for securing this outcome.

The Council's lead policy reflects experience with the district's first Special Housing Area – Bridesdale Farm. Media reports state that sections in Bridesdale Farm (beside Lake Hayes Estate) were initially released to market in January 2015, with some sections as low as \$80,000, and a 'section plus house' price tag of around \$450,000. By July 2018, it was reported that homes in Queenstown's first special housing area were selling for as much as \$890,000⁷.

⁶ Housing Accords and Special Housing Areas Act 2013 Implementation Policy
<https://www.qldc.govt.nz/media/g3kfzfn/hashaa-implementation-policy-lead-policy-updated-8-aug-2019.pdf>

⁷ <https://www.odt.co.nz/regions/queenstown/prices-soar-800k-average>

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Eight Special Housing Areas have been approved by the Government and consented by the Council. The table below lists the approved Special Housing Areas and their agreed contribution rates.

Table 2: SHA deeds – May 2021

Status	Stakeholder Deeds	Basis for Calculation (%)	Result - Residential Units/Sections Provided	Units Provided as:
Developed and settled	Shotover Country SHA (QT)	Negotiation	1	Land
Developed and settled	Bullendale SHA (QT)	House and land package - cash negotiation		Cash
Developed and settled	Onslow Rd SHA (QT)	5%	1	Land
Developed and settled	Queenstown Country Club SHA (QT)	5%	12	Land
Partially settled	Arrowtown Retirement Village SHA (QT)	3% of valuation of consented land		Cash
Still to come	Tomasi SHA (QT)	10%	9*	Land
Still to come	Hāwea (Wanaka) SHA	12.5%	58*	Land
Still to come	Coneburn SHA (QT)	12.5%	60*	Land

* Estimated – final yield to be determined

The affordable units produced through HASHAA and the QLDC SHA policy are passed to the Queenstown Lakes Community Housing Trust to develop and manage. The Trust works with

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developers to ensure that the housing created is located throughout developments and are of a scale and style that are contextual.

HASHAA 2013 expired in September 2019 and was not renewed by the government. This means there will be no further developments (or affordable housing contributions) agreed using this mechanism going forward.

3.5 Current State

The issues identified in the HOPE Strategy, Plan Change 24 and the Mayoral Taskforce remain current today and if anything, are becoming more acute. While the Covid-19 pandemic has modified the district's short term outlook as the result of reduced rates of inward migration to the country (which has lowered population growth rates) and limited the numbers of overseas visitors, the medium to long term picture remains one of the district being a popular visitor destination and as a place to live.

The graphs below show the basic dilemma faced by the district in terms of housing costs and housing supply. The first graph below shows the median sale price for dwellings in the district.



Figure 1 MBIE data: Median house prices

2021 sales data indicates that median sales prices for dwellings remain above the one million dollar mark in QLD. This is despite the effects of Covid and an apparent fall in rents.

It is often contended that an undersupply of dwellings relative to demand is the cause of high house prices. The long-term solution is usually identified to be ensuring that infrastructure ready land supply is responsive to demand – this requires much better use of flexible planning regulations, more upfront infrastructure investment and deterring land banking.

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The second graph (Figure 2 below) shows the relationship between population growth and supply of residential dwellings, for QLD, as estimated by MBIE⁸. The graph tracks building permits (solid line) and estimated population growth (dashed line). On top of resident demand, is demand for holiday homes and second homes.



Figure 2: MBIE data: Building permits issued (solid line) compared to estimated household growth (dashed line)

The graph indicates that there is no 'undersupply' of dwellings; if anything, there was a potential oversupply during the mid-2000s. From 2014 supply may have lagged demand as the region (and New Zealand) experienced a surge in growth. However, the district's housing market has responded to this surge in demand from the early 2010s with a steep increase in house building.

The data suggests that constrained supply of houses has not been the major cause of high house prices.

Rental data provides a picture of demand for housing as a place to live, rather than housing as a form of asset. Rental data collected by MBIE for 2021 places median rents in the Queenstown area at \$500 per week, and in Wanaka at \$571⁹. In Queenstown, media reports suggested that (pre covid), a three bedroom dwelling may have rented for \$750 per week.

Figure 3 shows the increase in mean rents from 1993 to 2020 for QLD and other urban areas in the South Island. Pre covid, there is a clear difference between QLD and the other urban settlements in terms of rents, suggesting high demand in QLD relative to supply.

⁸ Sourced from: <https://huddashboards.shinyapps.io/urban-development/#>. Note the dashboard website states that estimates of recent population growth have a range of uncertainties associated with them.

⁹ <https://www.tenancy.govt.nz/rent-bond-and-bills/market-rent/>

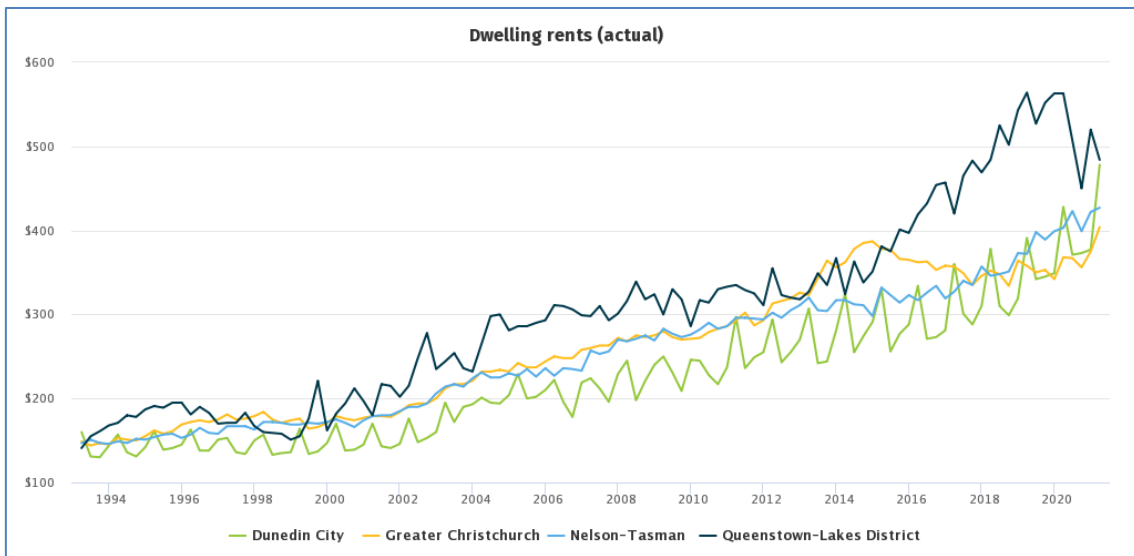


Figure 3: Mean Weekly Rents – QLD compared to other South Island Urban Areas

The apparent limited supply of housing for rent relative to demand may reflect a large number of rental properties that were directed at the short term rental market (covering visitors and seasonal workers). Economic evidence provided during the district plan review process found that “ In 16 months, from October 2016 to February 2018, Airbnb activity is estimated to have grown by anything up to 85%, with much of the growth occurring in Low Density Residential zones”¹⁰ The reduction in rental levels in 2020 may reflect the lower demand for short term lets arising from Covid 19, and hence a balancing of supply and demand.

While house prices and rental values are high, household incomes in QLD are also relatively high. Between 2013 and 2018 there was a large increase in the number of households in the upper income bands. The number of households in middle income bands (\$50,000 to \$100,000) remained much the same. See Figure 4.

¹⁰ economic-evidence-for-visitor-accommodation-s2239-qldc-t15-heyas-r-evidence-30909970-v-1.pdf, at page 4.11

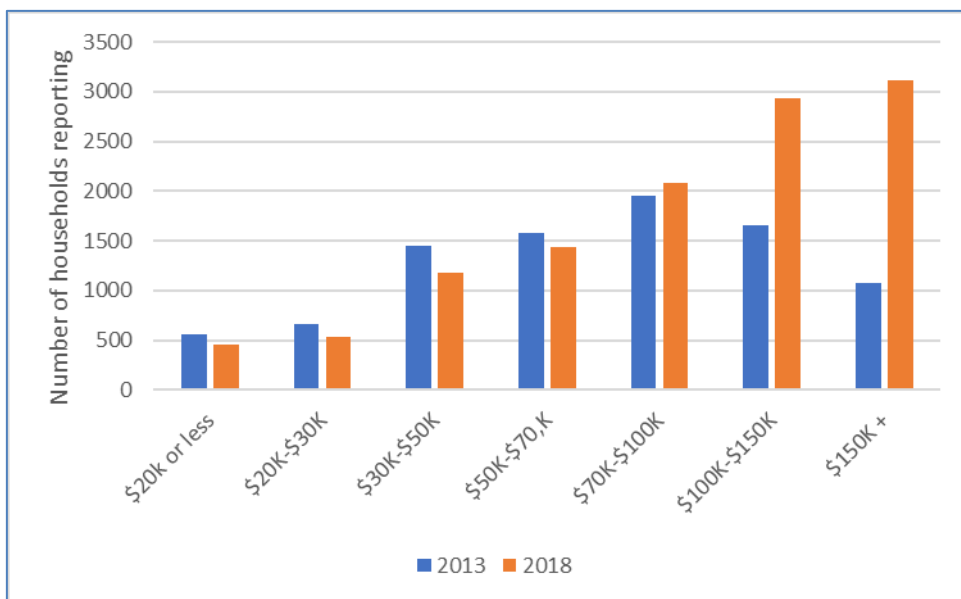


Figure 4: Household income 2013 and 2018, QLD

The data suggests that the district attracts relatively high income households which may also explain some of the high house prices in the area.

Median gross household income for QLD was \$73,300 per annum at the 2013 census; rising to \$103,100 in 2018¹¹. A 2020 estimate of median household income may be \$110,000, To maintain no more than 35% of median gross income being spent on housing, median rents need to be in the order of \$740 per week, while median house prices should be in the order of \$660,000, based on current interest rates and bank lending criteria¹².

At 80% of median income (which would include around 4,000 households), these figures are approximately \$590 for rent and \$530,00 for purchase (assuming that the deposit can be provided).

¹¹ 2018 census. The total household income variable is rated as moderate quality by Stats NZ

¹² Based on Westpac NZ calculator, assuming two adults and two dependents, normal outgoings and no other debt; 20% deposit.

4 Queenstown Lakes housing markets

This section briefly reviews the specific characteristics of the QLD housing market.

4.1 QLD housing capacity

At the time of writing, a new housing strategy (The Homes Strategy) and a housing capacity assessment are being prepared by the Council. The Council is also preparing a Spatial Plan (under the Local Government Act).

A 2017 Housing Development Capacity Assessment¹³, prepared under the then National Policy Statement on Urban Development Capacity (NPS-UDC)¹⁴, concluded that the total housing capacity in the district plan is well in excess of projected housing demand, in the short, medium and long-term. This includes allowance for the margins required by the NPS-UDC and assessment under a medium and high growth outlook (which spans Council's recommended growth projection).

District wide, under a high growth scenario, there is demand for 27,200 dwellings to 2046. Feasible capacity (over the long term) is assessed at 49,900 dwellings.

However, when broken down into house price bands, there is an imbalance between demand and supply at more affordable price levels. The assessment states that "in common with other parts of New Zealand, there will continue to be a shortfall in lower value/affordable dwellings; specifically, property values of under \$600,000, which coincides with the Governments' KiwiBuild Strategy"¹⁵.

Net shortfalls are identified in the five lowest dwelling value bands, representing 2,460 dwellings in total, as follows:

Table 3: Demand and supply of lower priced dwellings

Dwelling value band	Potential supply	Demand (2046)	Shortfall
Under \$300k	280	350	70
\$300K to \$440K	1,230	1,620	390
\$440K to \$580K	2,320	3,430	1,110
\$580K-\$730K	4,580	5,190	610
\$730K to \$880K	4,660	4,940	280

If \$580,000 is taken as an affordability threshold, then the shortfall is around 1,500 dwellings.

These capacity, demand and shortfall estimates are based on a wide range of assumptions relating to population growth, house values and incomes.

¹³ Housing Development Capacity Assessment 2017 Queenstown Lakes District 27th March 2018 – draft final: <https://www.qldc.govt.nz/media/g1e15203/housing-capacity-assessment-2017.pdf>

¹⁴ The 2016 NPS-UDC was replaced with the National Policy Statement on Urban Development (NPS-UD) in 2020.

¹⁵ Page 264, Ibid

Final for Public Consultation - Not QLDC Policy - July 2021

It is noted that while a shortfall in lower value / affordable dwellings is indicated, the shortfall is relatively small in the short and medium-terms but grows substantially in the longer term.

The shortfalls are based on ownership of houses being the preferred method of occupancy. The above calculations do not take into account rental levels and rental supply. Neither do they assume a supply of state (social housing).

The capacity assessment goes on to state:

QLDC has relatively high property values – a product of its popularity as a holiday and investment location and its relatively rapid growth. This combination of features means that increasing the supply of dwellings in the lower value bands (e.g., under \$600,000) will take specific effort and initiatives to make development of such dwellings feasible. Further supply of land or density provisions, where already expansively available, are therefore unlikely in and of themselves to increase the rate of take-up unless these are targeted to the lower spectrum of the housing where it has been determined that there are shortages in supply. Encouraging and enabling such initiatives to complement the broad-brush mechanisms like zoning and development controls in the District Plan, will be important to help ensure a comprehensive and balanced future dwelling estate.

An updated Housing and Business Capacity report is currently being prepared in line with the 2020 National Policy Statement – Urban Development (NPS-UD) requirements and will further inform housing capacity information.

4.2 Specific market conditions

There are a number of reasons why land and house prices are high, even with substantial capacity enabled by the district plan. QLD specific factors that are likely to influence (reduce the effectiveness) of normal market supply responses to high house prices are:

- Much of the District's housing estate has been developed in the last 25 years, limiting options for redevelopment
- The district has a high proportion of holiday / second homes, while fast growth in property values attracts investors. These types of owners may be more attracted to on-going capital gains via land value increases than via redevelopment
- While household incomes can be high (equal to metropolitan centres), a large percentage of the workforce is engaged in tourism and construction which generally has medium to lower income jobs
- There is a large seasonal and transient workforce, while the large number of visitors, coupled with the rise of 'AirBnB' type services means that housing stock can be profitably directed to these markets, rather than permanent workers / residents
- Construction costs are (likely) to be high, due to relative isolation
- Extensive areas of the district have been determined by to be outstanding natural landscapes and features in the current district plan review¹⁶. The RMA requires Outstanding Natural

¹⁶ Approximately 97% of the district: Helen Melsop EC evidence 2019a

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Landscapes (ONLs) and Outstanding Natural Features (ONFs) to be protected from any subdivision and development which adversely affects their values.

- Much of the land that is not included in ONLs and ONFs still has high landscape values, such as the Wakatipu Basin. There is a strong desire to retain a sense of openness to the landscape and to retain discrete clusters of development.

These factors, combined with the landscape issues present in the district, suggest that there is a need for additional housing affordability tools to those currently applied at a national level.

Furthermore, there is growing evidence that measures to increase supply of housing (such as the recently introduced National Policy Statement on Urban Development¹⁷) need to be accompanied by targeted measures that direct a proportion of new housing towards the needs of low to moderate income households. For example, in discussing supply-based approaches to tackling housing affordability, a recent report¹⁸ concluded that emphasising new market rate housing is a necessary condition to address affordability issues, but not sufficient by itself. Some form of public intervention (such as well-designed Inclusionary Zoning programmes) are needed to ensure that supply is added at prices affordable to a range of households.

QLD's experience with Special Housing Areas backs up this conclusion.

In addition, a range of commentators have noted that there are significant infrastructure funding issues at play in enabling significant supply ahead of demand such that land prices reduce substantially. The size of building companies, a constrained local labour market, the remote location and other factors can limit the ability of developers to provide housing at speed and in quantities that provide economies of scale. Others have noted that housing developers may not wish to supply affordable product, even if they had the option to do so. The extensive use of restrictive covenants can be an example of this preference to exclude some types of housing from developments.

¹⁷ The NPS-UD will be addressed in the Section 32 report.

¹⁸ Supply Scepticism: Housing Supply and Affordability. NYU Furman Centre, September 2018.

5 Affordable housing and planning

The Council previously sought to address housing affordability in RMA terms by way of Plan Change 24. Plan Change 24 was prepared under the RMA but was developed at a time of some central Government policy support for affordable housing requirements. In particular the Affordable Housing: Territorial Enabling Act 2008 was in force. That Act provided scope for Councils to introduce RMA –related provisions, based on analysis of housing need.

In contrast, the main focus of recent national planning policy (such as the NPS-UD and the former Special Housing Areas legislation) has been to tackle high house prices through reducing barriers to the supply of new housing (a so called supply-side response).

This approach is in part a response to concerns that commonly applied ‘compact city’ strategies constrain the ability of cities to grow both ‘out’ and ‘up’. In particular, while there may be sound reasons to limit some forms of urban expansion, the corollary of enabling alternative supply through additional intensification opportunities (going ‘up’ rather than ‘out’) is often only partly implemented. Thus, housing markets face constraints in terms of both expansion and intensification. In this context, unnecessary barriers to more housing supply should therefore be removed.

While on one level the criticism of inadequate supply responses is often valid, the extent to which additional supply will address housing affordability for low to moderate income households is unclear.

It is acknowledged that a planning-based affordable housing programme will not ‘solve’ the housing issues facing the district by itself. There is however substantial evidence that an appropriate programme will assist in helping the district to provide housing for low to moderate income households in a way that does not inhibit a wider supply response.

5.1 Mountain resorts and affordable worker housing

The HOPE Strategy and Plan Change 24’s section 32 report noted a number of international examples where a range of planning tools are used by ‘resort towns’ to address specific issues relating to affordability. These towns typically face environmental and/or landscape constraints that limit housing supply options, while experiencing strong economic growth pressures from tourism and visitor growth driven by the areas’ landscape values.

A range of North American mountain resorts use Linkage zoning as a method to provide ‘worker accommodation’ – that is, accommodation aimed at low to moderate income workers that tourism orientated businesses rely on. Linkage zoning is based on the amount and type of employment to be provided by new development. Often the Linkage zoning requirement results in payment of a “mitigation fee” based on the expected number of lower income jobs to be created. That fee then goes to an affordable housing provider. Jobs-housing linkage fees have been established in Aspen, Whistler and other mountain resort towns.

Linkage zoning was proposed in PC 24. However, it did involve relatively complex provisions relating to estimating the amount and type of employment to be generated by new business developments, and the associated contribution rate. To be sustained, Linkage zoning requires extensive studies to gauge appropriate fees and to determine the ratio of employees to business

Final for Public Consultation - Not QLDC Policy - July 2021

floor area, for example. Jobs-housing linkage fees are useful when areas are considerably built out for residential, or when commercial development is outpacing residential development.

5.1.1 Resort Municipality of Whistler, BC, Canada

The Resort Municipality of Whistler has a Consolidated Employee Housing Service Charge Bylaw 2000, which is used by the municipality to support development of employee housing in Whistler. The Bylaw requires all new commercial and industrial development, and residential development subject to a rental pool covenant, to pay a charge as a contribution to employee housing. Charges collected through this bylaw help fund the Municipalities Employee Housing Reserve which is used for purposes directly or indirectly related to employee housing services.

Under the Bylaw, the charge is \$5,908 per new employee. The number of employees is calculated as 1 employee per 250sqm for industrial development; 0.2 employees per guest room for residential development subject to a rental pool covenant; and 1 employee per 50sqm for commercial or any other development not listed.

5.1.2 Aspen and Pitkin County, Colorado

The Aspen Pitkin County Housing Authority operates under an intergovernmental agreement between the City of Aspen and the Board of County Commissioners of Pitkin County. The Authority has a set of guidelines used to facilitate the provision of affordable housing opportunities through rental and sale to persons who are or have been actively employed or self-employed within Aspen and Pitkin County.

Affordable housing is provided through new construction and conversion of existing dwelling units by the City of Aspen, Pitkin County and private sector property developers. Private sector developers are required to include an approved affordable housing component in all development projects or satisfy requirements through mitigation. For example, under the City of Aspen Land Use Code, free-market residential development must provide affordable housing in an amount equal to at least thirty percent (30%) of the additional free-market residential net liveable area developed. Mitigation options include conversion of an existing free market dwelling to a deed-restricted affordable housing; the payment of a 'fee-in-lieu' or an 'impact fee' by the developer; construction of deed-restricted units within a free market housing development; or offering a vacant property to the City of Aspen or Pitkin County, known as 'land in lieu'.¹⁹

The City of Aspen also has an Affordable Housing Zone. In the Zone, the developer can exceed the quota of allocated units but must provide a mix of at least 70% deed-restricted units to 30% maximum market rate units. Deed restricted units are meant to be occupied by workers– so there is a maximum vacancy period between tenants of 45 days.

5.1.3 Town of Vail and Eagle County, Colorado

In the 1990s the Town of Vail implemented Linkage zoning which required the developers of ski resorts and other large employers to provide a certain number of affordable housing units for their employees. The Commercial Linkage code (adopted in April 2007) requires all new commercial development and new net commercial redevelopment to mitigate employee housing demands at a

¹⁹ <https://www.apcha.org/DocumentCenter/View/1225/APCHARegulationsFINAL20200319?bidId=>

rate of 20% of the new net employees. That is, each commercial development or redevelopment has to provide employee housing units for twenty percent (20%) of the employees generated by the development. For example, for a development proposing 2,500 square feet of new net floor area for an eating and drinking establishment, 16 new employees are generated, based on formulas set out in the Linkage Code. 16 new employees generated times by 20% equals 3 employees to be housed.

For all new construction (i.e., development that does not affect any existing buildings or structures) and demolition / rebuild projects that result in a mitigation requirement of 1.25 employees or greater, at least one-half of the employee housing required by the Code has to be on-site units. Otherwise, units may be off-site. In some cases, a cash in lieu option is available.

Inclusionary Zoning (adopted April 2007) requires every residential development and redevelopment to mitigate its direct and secondary impacts on the town by providing employee housing at a mitigation rate of ten percent (10%) of the total new gross floor area. That is, a 5,000 square foot residential development has to provide 500 square foot of employee housing. As with Linkage zoning, at least half the floor space has to be provided within the development. An applicant may provide a payment of fees in lieu only for any fractional remainder of the requirement generated under this requirement, totalling less than forty (40) square metres of floor area. The town uses monies collected from the fees in lieu only to provide incremental new employee housing units²⁰.

5.2 Metropolitan approaches

A wide range of metropolitan cities have introduced affordable housing requirements. They most commonly apply forms of Inclusionary zoning. Inclusionary zoning is more broadly based than Linkage zoning and seeks to enable general community well-being through mixed communities. It is aimed at all types of low to moderate income households having options to live in most neighbourhoods across the district. Typically, Inclusionary zoning requires that a set percentage of new homes be sold at an 'affordable' price, with the price determined by reference to median household incomes in the relevant city or region. This option potentially better fits with QLDC's past/current practice under the SHA process, and is easier to administer and implement, but is technically more complex to justify under the RMA, in that there is less of a nexus between an 'effect' and a method of mitigation.

An Australian Housing and Urban Research Institute report: 'Inquiry into increasing affordable housing supply: Evidence-based principles and strategies for Australian policy and practice'²¹, notes that metropolitan planning systems are increasingly been used to generate a supply of affordable housing.

The report identifies that land costs and the ability to access land appear to make the greatest impact on overall feasibility for individual affordable housing projects in capital cities—which has implications for the use of public land and discounted private land (via inclusionary planning approaches) as a key component of affordable housing production. The report states that there is scope to increase the use of mandatory inclusionary planning mechanisms in high growth residential areas of metropolitan and potentially regional Australia. These mechanisms should be

²⁰ <https://www.vailgov.com/departments/housing/housing-regulations>

²¹ Australian Housing and Urban Research Institute, May 2018. AHURI report number 300. ISN 1834-7223.

targeted to local market conditions and designed to work in conjunction with planning incentives which support and encourage overall housing supply²².

The report identifies the following²³:

What have been the outcomes of planning system approaches to boost affordable supply or overcome development barriers?

Inclusionary planning tools leverage significant quantities of affordable housing supply in many parts of the UK and US. Around 43 per cent of total affordable housing output (12,866 units) was delivered through inclusionary planning requirements in England between 2015–2016, and inclusionary housing schemes apply to more than 500 cities across the United States.

Inclusionary planning for affordable housing remains limited in Australia. However, South Australia (SA) delivered 5,485 affordable rental and low cost home ownership dwellings between 2005–2015 through an inclusionary planning target applying to new residential areas, amounting to around 17 per cent of SA's total housing supply.

In New South Wales (NSW), a planning incentive scheme introduced in 2009 has yielded around 2,000 affordable rental dwellings in Sydney, equivalent to less than 1 per cent of the city's total supply over the period. Planning concessions to enable more diverse and lower cost housing development, such as accessory dwellings ('granny flats') and boarding houses (small rental units sized at around 12 square metres) have produced a greater supply response (around 11,000 accessory dwellings and at least 2,280 boarding house 'rooms').

There is significant potential to expand the use of inclusionary approaches in Australia as a means of integrating affordable homes within wider planning and development processes. However, approaches must be tailored to local market conditions.

Inclusionary planning approaches should never be seen as an alternative source of funding for social and affordable rental housing provision.

²² Page 5, Ibid

²³ Page 2, Ibid

6 Non RMA Options

This part of the report looks at the high level options available to the Council to progress the provision of affordable housing under the Local Government Act (LGA); that is implement an objective of increasing the supply of affordable housing using tools other than the RMA.

6.1 Local Government Act

Under the Local Government Act (LGA), the Council has a range of powers it can use to advance the social, economic and cultural wellbeing of the district. This includes the direct provision of social housing, as well as raising funds to support other agencies to deliver affordable housing through grants and loans. To date the QLDC Council has been using a range of tools to support the provision of affordable housing. The Council has established the Queenstown Lakes District Housing Trust and provided funds through cash grants and transfer of land, for example.

The following briefly reviews the extent to which Council could more comprehensively use its powers under the LGA to enable a larger supply of affordable housing. In particular are its powers to raise revenue through rates and to levy Development Contributions. See Attachment 1 for a fuller discussion of these tools.

6.1.1 General or targeted rates

Under the Rating Act, the Council has flexible powers to set, assess, and collect rates to fund local government activities. An activity could include the construction and management of affordable housing.

While technically feasible, the Council would need to identify the activity in its Long Term Plan so as to justify any rate.

Council is under pressure to fund a wide range of activities, with a strong emphasis on infrastructure expansion and renewals and so the amount of funding that could be generated by rates (general or targeted) is likely to be limited.

Since rates are set each 3 year cycle, there is always a risk that rates collected for provision of affordable housing will not be seen to be a 'core' function of Council, and the revenue stream may be reduced or curtailed. This would create a degree of uncertainty over future revenue streams and is likely to limit the extent to which Council and or the Housing Trust may borrow to fund capital projects.

6.1.2 Development contributions

Council can levy new development a monetary contribution to the expansion of infrastructure and services. The contribution is to help pay the growth related costs of reserves, network infrastructure and community infrastructure. Development contributions become payable on the granting of any of the following:

- resource consent;
- building consent;
- consent by a local authority to connect to a service.

Final for Public Consultation - Not QLDC Policy - July 2021

Development Contributions can only be imposed in accordance with a development contribution policy set out in the Council's Long Term Plan. Affordable housing is not within the definitions of community or network infrastructure. Accordingly, QLDC has no power to require development contributions to address housing affordability issues in its district.

6.1.3 Partnerships, advocacy

Council could enter to partnerships with other agencies, such as central government, and/or other community housing organisations that supply affordable housing. While beneficial, the experience of such partnerships is that they are often time limited or temporary in their nature. For example, the Government introduced the Housing Innovation Fund (HIF) in 2003 to support the growth of third sector social housing in New Zealand. Through HIF, third sector social housing providers were able to receive suspensory loans or conditional grants for the purposes of building social housing. In 2010, as part of the wider social housing reform programme changes, the Government stopped issuing new HIF loans.

6.1.4 Discussion

Council's powers under the LGA are limited. QLDC would likely face significant difficulties addressing the district's affordable housing issues through any of the above mechanisms. Challenges arise from issues of legal scope (such as Development Contributions) or securing a long term mandate that can last through political cycles.

7 Developing an RMA tool

The following section discusses whether an affordable housing requirement can be an RMA method. To do so, the following points are relevant:

- Would an affordability requirement of some form fall within the scope of Council's powers under the RMA?
- Any affordable housing provision must be tied back to the resource management issues facing the district
- There must be some form of linkage or relationship between the proposed provision and effects generated by particular types or locations of development.
- Costs and benefits need to be considered.

7.1 Council's powers under the RMA

7.1.1 Plan Change 24

Plan Change 24 to the QLDC Operative District Plan sought to introduce a consistent and comprehensive framework for affordable housing, following a number of plan change specific provisions. The plan change established a basis for housing affordability to be recognised as an issue that could be addressed via the RMA and proposed a specific method. While the final form of Plan Change 24 following appeals removed the method, the relevance of Plan Change 24 is the Court decisions on whether the plan change was 'within scope' of the RMA.

Plan Change 24 was the subject of appeals to the Environment Court and the High Court (2010). These decisions established that an affordable housing requirement (of some form) can be a matter that is included in RMA plans. This is on the basis that a requirement can fall within the terms of section 72, section 31 and Part 2 of the RMA.

Section 72 sets out that the purpose of the preparation, implementation, and administration of district plans is to assist territorial authorities to carry out their functions in order to achieve the purpose of this Act.

In turn, this requires two matters to be considered: the functions of territorial authorities under s 31; and, secondly, the purpose of the Act under Part 2, particularly s 5.

As of 2010, Section 31 (1) (a) and (b) set out the functions of councils: Councils are to establish integrated management of effects of development and to control any actual or potential effects.

The 2010 High Court decision identified that affordable housing requirements can fall within the scope of these sections. Specifically, it was noted that Plan Change 24:

Concerns a perceived effect of the future development of land within the district. However, the requirement to provide affordable housing will only arise if the development is construed as having an impact on the issue of affordable housing (in terms of an assessment under Appendix 11). Thus, the requisite link between the effects and the instrument used to achieve integrated management exist.

Final for Public Consultation - Not QLDC Policy - July 2021

Consequently, if the use or development of land within the Queenstown Lakes district has the effect, or potential effect, of pushing up land prices and thereby impacting on affordable housing within the district, the Council has the power to control those effects through its district plan, subject, of course, to the plan ultimately withstanding scrutiny on its merits.

In relation to Part 2 of the RMA, the decision stated:

PC24 promotes the sustainable management of land and housing, enabling people to provide for their wellbeing while also remedying or mitigating the effects of constrained land use. In other words, (the Environment Court) was satisfied that PC24 came within the statutory concept of sustainable management. Significantly in the present context, the statutory concept of sustainable management expressly recognises that the development of physical resources, such as land, might have an effect on the ability of people to provide for their social or economic wellbeing. The concept of social or economic wellbeing is obviously wide enough to include affordable and/or community housing.

The High Court noted that Section 32 is also relevant, but they were not asked to determine whether the plan change met the substantive tests set out in that section.

7.1.2 Recent RMA amendments

It should be noted that the Plan Change 24 High Court decision was delivered in a policy environment that preceded Special Housing Areas and the NPS-UD. Since the decision, section 31 of the RMA has been amended to directly refer to a function of district plans being to ensure sufficient supply of development capacity to meet housing demands, while section 74 now directly refers to the need for district plans to be prepared in accordance with national policy.

At its highest level the RMA sets out that the purpose of this Act is to promote the sustainable management of natural and physical resources.

In the Act, sustainable management means managing 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 while:

- sustaining the potential of natural and physical resources (excluding minerals) to meet the reasonably foreseeable needs of future generations; and
- safeguarding the life-supporting capacity of air, water, soil, and ecosystems; and
- avoiding, remedying, or mitigating any adverse effects of activities on the environment.

The reference to the use of resources 'in a way, and at a rate' which enables communities to provide for their social and economic needs suggests scope to 'allocate' resources to particular ends.

Two recent changes to RMA-related documents suggest that there is further scope to address affordable housing as part of planning documents.

The RMA itself (section 31) was amended in 2017 by expanding the functions of councils to include:

the establishment, implementation, and review of objectives, 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.

Final for Public Consultation - Not QLDC Policy - July 2021

The 2020 National Policy Statement on Urban Development (NPS UD)²⁴ has a focus on well-functioning urban environments, this objective is couched within the broader objectives relating to sustainable management. Relevant is Objective 1:

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.

Policy 1 fleshes out what is a well-functioning urban environment:

Planning decisions contribute to well-functioning urban environments, which are urban environments that, as a minimum:

- (a) have or enable a variety of homes that:
 - (i) meet the needs, in terms of type, price, and location, of different households; and*
 - (ii) enable Māori to express their cultural traditions and norms;**
- (b) have or enable a variety of sites that are suitable for different business sectors in terms of location and site size; and*
- (c) have good accessibility for all people between housing, jobs, community services, natural spaces, and open spaces, including by way of public or active transport; and support, and*
- (d) limit as much as possible adverse impacts on, the competitive operation of land and development markets; and*
- (e) support reductions in greenhouse gas emissions; and*
- (f) are resilient to the likely current and future effects of climate change.*

The reference in Policy 1 to meeting the needs of different households in terms of 'price' brings in the issue of affordability (rental and ownership affordability).

It is also relevant that Objective 2 refers to planning decisions improving housing affordability by supporting competitive land and development markets as one way to improve choices for low to moderate income households. However, the NPS does not limit affordability measures to the one action of competitive markets.

In summary, the RMA is a flexible statute that allows for a range of local interpretations of what constitutes sustainable management. In making choices as to how to implement sustainable management, efficient land and housing markets are important, but these outcomes need to sit alongside and be integrated with environmental outcomes.

The following sections review the links between affordable housing and the RMA issues facing the district, the linkages to effects of development and the costs and benefits of an affordable housing requirement.

7.2 Resource management issues

In the context of QLD, land for urban development is limited in its supply. A range of district plan provisions relating to the protection of the natural environment, amenity, infrastructure and urban growth combine to limit the extent to which zoning can meet all needs, in the medium to long term. While these constraints overall benefit the community's wellbeing (as a range of negative

²⁴ [AA-Gazetted-NPSUD-17.07.2020-pdf.pdf \(environment.govt.nz\)](#)

Final for Public Consultation - Not QLDC Policy - July 2021

externalities are addressed), the inherent "friction" created by them generates costs that are borne by particular sectors of the community, in this case households on low to moderate incomes who face restricted housing choices.

The stock of land suitable for urban development is limited by necessary measures to avoid adverse impacts on outstanding natural landscapes and areas of high amenity. This stock of land appropriate for development needs to be managed (in a way and at a rate) that takes into account the needs of future generations to access affordable housing. It is also important for social and economic well-being that when avoiding or mitigating impacts on natural resources, certain groups are not significantly disadvantaged (that is their well-being is disabled by limited choices and/or high prices).

Taking into account the needs of future generations, and to enable community well-being in general (not just workers, but all residents), there is a case that in the specific context of QLD, an affordability requirement tied to housing development is an appropriate RMA measure.

The basic rationale for their use is that they help to implement the District Plan's overall approach to urban growth. By ensuring a mix of market rate and affordable housing is provided in planned developments, affordable housing programmes:

- Reduce pressure for continual urban expansion as a means of providing more affordable land and houses. The QLD experience is that once land is zoned for housing on the basis of providing an affordable product, land and house prices in the development rapidly rise. Pressure then builds for further expansion, repeating the cycle.
- Help avoid the displacement of lower income households to outer lying settlements, thereby helping to lessen impacts from longer commuting to work, education and other activities. For example, some workers in Queenstown commute from Cromwell. This commuting places pressure on the State Highway infrastructure.
- Recognises that through zoning and development controls that protect landscapes and amenity, existing landowners derive an indirect benefit from higher land values. This in turn can have an adverse consequence for those households seeking more affordable housing. While zoning and amenity controls can be and should be appropriately calibrated to reduce this adverse consequence on housing choices, in the QLD context of an economy and sense of place based on natural landscape values there is a 'floor' to such re-calibration. There is an inevitable flow-on impact from wider growth management goals on social and economic wellbeing that should be off-set in an integrated manner.
- Recognise that while the process of urban (brownfields) redevelopment helps to increase housing supply and offer housing choices that are more affordable than other housing products, brownfields redevelopment does not necessarily provide housing that is affordable to those on low to moderate incomes. If anything, the process of urban redevelopment tends to see older, cheaper housing in an area removed and replaced by newer units that are more expensive. Through this process, lower income households can be displaced and see their housing options reduced.

7.3 Effects Management

Along with tying housing affordability to sustainable management, it is also necessary to establish a linkage between the issue and particular activities that occur in the district. This is to address concerns that any affordability measure may be seen as a form of a general tax or charge on development, rather than a means to manage adverse effects of particular activities and enable sustainable management.

Plan Change 24 sought to establish a linkage to effects by relating the affordability requirement to economic and business growth in the district. This growth was largely based on the visitor market generated by the region's landscapes and natural environment. The business growth fuelled employment growth which in turn generated demands to house workers, which in turn put pressure on the housing market and demands for residential growth that might affect the landscapes.

The alternative is to relate affordability to residential development that occurs. That is, affordability is linked to housing development. This involves a more indirect connection in terms of effects, in that it can be argued that any housing supply is contributing to the improvement of housing affordability, not aggravating affordability. In simple, terms the building of a house does not create an adverse effect in terms of affordability.

However, the zoning of land (from rural to urban, or from low to high density) does have implications for affordability. As noted, where options to continually add more urban land are constrained due to environmental factors, then lower income households can face reduced opportunities. Rather than relax environmental controls (which are needed to sustain wider social and economic wellbeing) the alternative is to look at how land that is to be urbanised can be used more effectively.

7.3.1 Inclusionary vs linkage

Plan Change 24 proposed a form of linkage zoning, on the basis that this approach best fit the RMA's 'effects' structure. In other words, affordable housing was primarily tied to business development (employment growth). In contrast Council's use of stakeholder agreements and Special Housing Areas has used a form of inclusionary zoning whereby affordable housing is tied to residential development.

The table below lists the differences and commonalities between the two schemes.

Inclusionary Zoning	Linkage Zoning
An approach where a proportion of all residential development includes affordable homes (as defined) in the development, whether on-site or through an agreed off-site arrangement.	An approach analysing the demand for affordable housing in the district and allocating that demand across all land uses: Residential, Commercial and Industrial.
Used under the Lead Policy through HASHAA	Uses the approach argued under Plan Change 24

Inclusionary Zoning	Linkage Zoning
Simpler to apply in a consenting setting, but a less easy option under the RMA,	More complex to apply in a consenting setting, A more obvious fit for RMA

For the purposes of developing any affordable housing requirement for inclusion in the QLD PDP, it is recommended that the Inclusionary zoning type approach be developed, in preference to Linkage zoning. This is on the basis of effectiveness and building on current practice and methods. An Inclusionary zoning requirement is also generally simpler to understand and therefore to anticipate and build into feasibility studies.

Inclusionary zoning is 'linked' to the effects of residential development by virtue of the fact that the experience of QLD is that residentially zoned land has not been used at a rate and in a way that has provided for the social and economic wellbeing of a sector of the community.

7.4 Costs and benefits

Criticisms of regulatory-based affordable housing programs, such as Inclusionary zoning, generally centre around two arguments:

1. inclusionary housing programs do not produce much or any affordable housing, and
2. inclusionary housing programs have a negative impact on the overall housing market by depressing supply and pushing up market prices. To subsidize the cost of providing the below-market units, the developer could increase the prices or rents of the market-rate units.

7.4.1 More land?

Because of these issues, a supply response (more land for housing) is often pitched as the better policy option, than regulatory-based responses. For example, the Independent Hearings Panel considering the Proposed Auckland Unitary Plan echoed the above concerns, stating that Inclusionary zoning is a form of a 'tax' that would suppress overall housing supply and push up prices. The Panel's overall analysis was that improving supply is a better policy option. It should be noted that in the Auckland context, supply options are more extensive than in Queenstown.

The 2015 Productivity Commission report on housing affordability²⁵ also pointed towards restrictive zoning practices as being a key barrier to affordability. The report advocated for more brownfields and greenfields land being zoned for housing development, rather than plan-based methods that require affordable housing be provided.

The increase in housing supply in Canterbury following the 2010-2011 earthquakes, facilitated by legislation that speeded up rezoning processes, is often cited as the supply response working. However, there are some unique circumstances involved including slow population growth post-

²⁵ <https://www.productivity.govt.nz/assets/Documents/4879141358/Summary-version.pdf>

Final for Public Consultation - Not QLDC Policy - July 2021

earthquake and the benefit of insurance money enabling rebuilding. Canterbury also had on hand a range of development options that could be advanced. As noted by MFE in an April 2020 memo to Housing Ministers²⁶:

A number of factors specific to greater Christchurch mean that the supply of housing has been more responsive to demand, particularly in Selwyn and Waimakariri. These factors include:

a) The lasting benefits of Christchurch rebuild initiatives that fast forwarded plan changes and brought in thousands of migrant construction workers after the 2011 earthquakes

b) Low population growth in Christchurch city since the earthquakes

c) Rapid growth in surrounding Selwyn and Waimakariri, on flat land that is relatively cheap and fast to develop. This has been enabled by the district councils pre-planning, the Land Use Recovery Plan, the councils' ability to finance infrastructure and their use of innovative ways to enable development quickly.

The QLD experience is that even with substantial additional greenfields areas being brought on stream, land and property prices have continued to rise. This can be seen in the MBIE data set out above. While additional housing capacity always needs to be found in a growing area, additional supply of land for housing is not, by itself, sufficient to ensure a supply of affordable houses. Increased density of housing development (smaller land area per dwelling) also helps to moderate prices but is again not sufficient to ensure affordable product is provided.

7.4.2 Will it affect housing supply?

Whether plan-based affordable housing requirements adversely affect housing markets is a complex area with a wide variety of views for and against. Concerns over impacts on housing supply and housing costs may be a transient effect. Once established, any affordable housing requirement is most likely to be factored into land prices. As identified in a study on New York City's proposed affordable housing requirements: 'over the longer run, developers (and landowners) may well be able to adapt as necessary to changes in policies and economic conditions, even if unable to do so immediately following a policy change'²⁷.

In terms of shorter term impacts on housing supply and house prices, a US 2016 report entitled: "Separating Fact from Fiction to Design Effective Inclusionary Housing Programs"²⁸ noted that many studies showing an adverse effect of inclusionary programmes on housing supply and prices

²⁶ <https://environment.govt.nz/assets/Publications/Files/aide-memoire-christchurch-development-capacity-and-affordable-housing.pdf>

²⁷ Creating Affordable Housing Out of Thin Air: The Economics of Mandatory Inclusionary Zoning in New York City. NYU Furman Center, 2015, Page 2.

²⁸ Sourced from: <https://nhc.org/wp-content/uploads/2017/10/Separating-Fact-from-Fiction-to-Design.pdf>

Final for Public Consultation - Not QLDC Policy - July 2021

were not robust in their isolation of the range of factors that can impact upon house prices. The study concluded²⁹:

Among these robust studies, however, the researchers find a mixed bag in terms of the effects inclusionary housing programs have on the overall supply of housing and on market prices, with generally no impacts on supply and no or modest impacts on prices. Notwithstanding economic theory, these empirical studies suggest that the relationship between affordability requirements and the housing market is complicated and highly dependent on the unique characteristics of the local economy and housing market and on the specific design, implementation and tenure of particular programs.

In general, mandatory programs in strong housing markets that have predictable rules, well-designed cost offsets, and flexible compliance alternatives tend to be the most effective types of inclusionary housing programs³⁰.

The inclusion of an affordable housing requirement as part of many Special Housing Area proposals (in Queenstown as well as Auckland) is recognition that the informal 'up zoning' enabled by special housing identification is an appropriate (and efficient and effective) time to seek a contribution towards affordability outcomes.

The impact of any affordability requirement on the feasibility of different forms of residential development does need to be tested.

7.4.3 Cost and benefits

Given uncertainties over the 'costs and benefits' of an affordable housing requirement, and where those may fall, QLDC asked Sense Partners to scope the economic costs and benefits of implementing an affordable housing policy³¹.

This work established that the benefits of an affordable housing requirement were likely to outweigh the costs:

- Costs were identified as an increase in house prices to off-set the affordable housing requirement (a 1% increase was assumed, across the housing stock) even though no evidence of affordable house requirements increasing neighbouring house prices is evident in Queenstown. While existing homeowners would be better off future homeowners would be worse off.
- 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

²⁹ Page 5, Ibid

³⁰ Page 11, Ibid

³¹ See: The economic case of Inclusionary Zoning in QLD. Sense Partners, 21 October 2020.

Final for Public Consultation - Not QLDC Policy - July 2021

inflate benefit estimates and are a source of contention. There are also potential benefits from reduced commute times for some households.

In the worst case, the total economic benefit of an affordable housing policy would equal costs – with net benefits of \$3m over 30 years discounted at 6%.

In (a conservative) best case, the total economic benefit of the affordable housing policy would be \$101m.

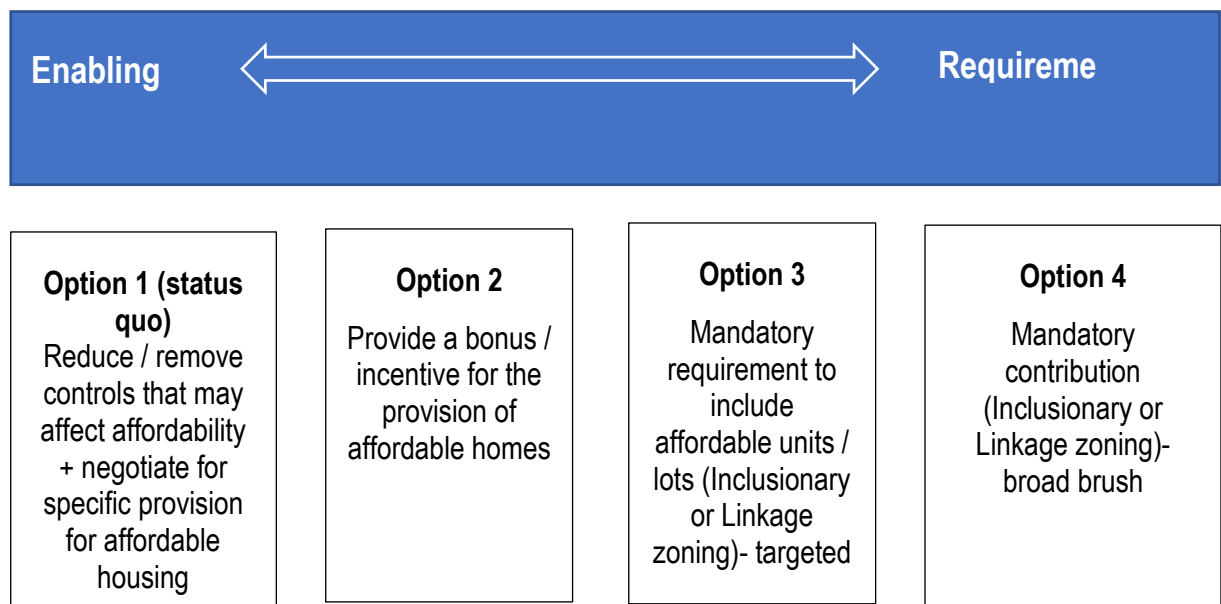
The report makes the following observations about affordable housing and planning:

- 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.
- Affordable housing requirements is a planning tool to specifically generate affordable housing. On its own, it can be distortionary. When combined in the context of other policies that facilitate housing supply, these distortions can be mitigated.
- The analysis suggests that from a monetary perspective, the benefits and costs accrue to different cohorts, but that the net impact is positive.
- The analysis of QLDC affordable housing tools used to date show that the common criticisms of affordable housing policies internationally have not been evident (reduced supply, reduced house size and increased price).

8 RMA Options

This part of the report looks at the high level RMA-based options available to the Council to progress the provision of affordable housing and the high-level risks and benefits associated with the different courses of action.

Options range from enabling additional supply to a mandatory requirement to provide a percentage of affordable housing. The options lie on a continuum as follows:



There are a range of costs and benefits associated with the options.

8.1.1 Option 1 part 1: Additional supply / reduce controls (status quo)

It is often contended that there are a range of amenity-based controls on residential development that have the effect of increasing the costs of housing, while having limited benefit in terms of wider environmental quality.

A common example is minimum density controls. Such a control limits options for sites to be used for a variety of housing types, for example one larger house or two smaller houses that fit within the same built form envelope. While controls such as building coverage, building height and building setbacks and minimum landscape requirements can be justified on the basis of controlling specific spill over effects onto neighbours, minimum density controls have more of a general, but indirect effect on amenities.

One option is therefore for the minimum density controls to be reviewed. For example, in the Medium Density Residential Zone housing types such as flats, town houses, duplexes and terrace housing provide scope for a range of house and lot sizes. In particular there should be the ability to provide housing on small lots (given that land prices are an important component of housing affordability).

Final for Public Consultation - Not QLDC Policy - July 2021

The zone is described as enabling a greater supply of diverse housing options for the district. The main forms of residential development anticipated are terrace housing, semi-detached housing and detached townhouses on small sites of 250m² or greater.

The minimum density of 1 unit per 250m² of site area could be removed. Other controls such as height and coverage would remain. A minimum landscaping (permeable) area may need to be introduced.

Having said that, reduction in controls does not mean that development opportunities provided will be taken up. QLDC staff report that 'underdevelopment' of sites in medium, high density and Business Mixed Use zones is common, with development of standalone houses common in zones suitable for compact, affordable terrace housing and multi-unit apartment developments.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Provides greater scope for a range of house types and sizes on sites (e.g., one- and two-bedroom units) • Greater design flexibility for smaller sites 	<ul style="list-style-type: none"> • Other bulk and location controls may need to be added or strengthened to address effects, such as minimum outlook areas and minimum landscape / permeable areas. • Amends a provision which has recently been the subject of extensive submissions, hearings and decisions. • Opportunities for smaller, cheaper dwellings may not be taken up.

8.1.2 Option 1, part 2: Negotiate at Plan Changes (status quo)

This option would involve the Council raising affordability issues when it prepares plan changes or processes private plan changes. The PDP may have affordable housing provision as an objective but leave any method to be determined as each plan change is considered.

The extent of future plan changes is unknown, and any offer (or acceptance) of affordable housing provisions will be voluntary.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Place / area specific solutions could be developed • Flexibility over contribution type and quantity • Reflects past practice 	<ul style="list-style-type: none"> Involves case-by-case negotiation May see inconsistencies develop over time between different plan provisions May be complex to administer Limited incentive to negotiate.

8.1.3 Option 2: Bonus / incentives

A bonus or incentive is a common tool used to help enable affordable housing production in many US jurisdictions. A bonus or incentive may be a stand-alone provision or be part of a mandatory requirement.

The bonus may be in the form of additional building height or building coverage or increased density. As a stand-alone tool, the bonus needs to be of sufficient scale to overcome any real or perceived loss of development returns arising from the provision of affordable housing. That is, the bonus needs to provide additional return, over and above what a developer may expect from staying with a 'conventional' development model. For example, a rule could be introduced that affordable housing could 'sit outside' standard plan density controls. Some form of performance statement would be needed as to what constitutes affordability (such as a price point or size of unit).

Generally, bonuses are difficult to justify under the RMA, as any standard has to be set in reference to avoiding or mitigating adverse effects. The ability to extend building form or bulk beyond a set limit therefore implies some form of adverse effect, which if acceptable for one type of development, should be available for all forms of development to access. Therefore, this approach could take a considerable time to develop and justify under section 32 of the RMA.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Provides incentives, appropriate to market conditions, to developers for provision of community housing • Could be provided in selected areas where additional development is being contemplated (such as in Gorge Road and Frankton in Queenstown) • Fits with current PDP policy framework that refers to scope to step aside from density controls if affordable housing product is being offered 	<ul style="list-style-type: none"> • May be difficult to justify enabling a certain level of effects, for the benefit of community housing under the RMA • Neighbours may feel threatened if developments can exceed normal limits, such as concerns about additional parking and traffic in an area • It is uncertain what level of incentive would need to be offered to encourage up-take of the provisions • The affordable housing product may not be retained long term.

8.1.4 Option 3: Targeted mandatory contribution

A targeted approach would focus an affordable housing requirement or contribution where it is most likely to be effective to do so, for example new subdivisions. The option would build on the practice established under the Special Housing Areas process whereby new greenfields subdivisions contribute to affordable housing, and where the evidence is clear that such a requirement (provided it not excessive) does not make development unviable.

Final for Public Consultation - Not QLDC Policy - July 2021

This option would introduce a mandatory inclusionary zoning provision requiring a contribution of a certain percentage of sites, sites and dwellings, or cash in lieu for affordable housing, for all greenfields developments over a set threshold. For example, would be greenfields subdivisions over 20 lots or more. A 10% to 15% requirement may apply, with either the land and housing sold at a discount to market prices to eligible households, or equivalent cash in lieu contributions transferred to the Housing Trust.

A trigger level of development would need to be set and appropriate retention mechanisms developed (such as consent conditions or covenants) to control resale of any affordable housing sold into the private market.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Applies to greenfields, but not brownfields • Enables the Council or Community Housing Trust to secure community housing at a rate linked to development • Provides a clearly stated contribution regime, so that all greenfields developers are treated fairly and transparently • May provide an incentive for brownfields development 	<ul style="list-style-type: none"> • Would not apply where development is already at maximum capacity • Relies upon continual urban expansion to generate supply • Justification for selective approach is likely to be challenged in the Environment Court • The costs of provision of affordable housing may be transferred to other players in the housing market in the short term. • Monitoring of any consent conditions

8.1.5 Option 4: Modest mandatory contribution across the district

This option would introduce a mandatory contribution (lots or cash in lieu) for affordable housing, for all developments, whether they be in greenfields or brownfields areas. In greenfields areas, contributions may be most likely in the form of the transfer of land, but smaller developments would have a cash in lieu option (on a pro-rate basis). For brownfields developments, the contribution would most likely be in the form of cash contribution based on a formula set out in the District Plan. A cash contribution based on the value of the new development put in place (for example, a rate per square metre of floorspace) is more likely to suit the variety of situations found in brownfields developments (where there is a mix of infill and redevelopment, as well as smaller and larger housing units). The contribution applied to brownfields may be at a discount to the rate applied to greenfields, recognising the wider growth management benefits of compact urban growth.

Land would be transferred to the Housing Trust. Cash contributions would also be transferred to the Trust and would have to be used for the purposes of providing affordable housing.

This option would make clear and transparent the expectations of the community with regard to contributions towards affordable housing. All developers would have the same understanding of

Final for Public Consultation - Not QLDC Policy - July 2021

the contribution to affordable housing required and enable the 'costs' of providing a proportion of affordable housing to be taken into account during the site acquisition, design and development process. A trigger level of development would not need to be set.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none">• Applies widely, requiring community housing in low- and high-density areas, greenfields and brownfields• Enables the Council to pass contributions onto the Community Housing Trust to secure community housing as they see fit• Provides a clearly stated contribution regime, so that all developments are treated fairly and transparently	<ul style="list-style-type: none">• Justification is likely to be challenged in the Environment Court• The costs of provision of affordable housing may be transferred to other players in the housing market in the short term

8.2 Discussion

To date, the main method used by the Council has been the first option – negotiation at the time of plan changes. However, this has been on a largely unstructured, case-by-case basis, with 'one-off' Developer Agreements / Stakeholder Deeds used to secure the affordable housing contribution. Special Housing Areas did see a more formal structure, although the affordable housing requirement technically sits outside the district plan, required as a council policy.

There are a range of costs and benefits associated with the options

All options involve risks: A reduction in controls may be met opposition from existing residents, as might a bonus based provision. The re-litigation of controls recently debated through the district plan development process may also be a source of contention.

The 'plan change' option is the option mostly closely aligned with current Special Housing Area and Stakeholder Deed techniques. However, the effectiveness of a 'plan change' option may have diminished compared to past experience. There are likely to be fewer plan changes than in the past, given that a revised District Plan is now being prepared which has a considerable element of 'up zoning' associated with it.

Any mandatory requirements are likely to be challenged by developers and landowners as running counter to current national-level policy which emphasises supply-side responses to affordability concerns. Yet a mandatory requirement is likely to be an effective method of addressing the housing affordability issues facing the district.

9 Developing Issues and Objectives for Affordable Housing

This section begins the process of developing an RMA-based affordable housing requirement by proposing an issue and objective that can be used to guide subsequent assessment of specific options and provisions.

9.1 Current District Plan Issues and Objectives

The Operative District Plan has a specific objective for affordable housing, namely:

4.10.1 Objectives and Policies

Access to Community Housing or the provision of a range of Residential Activity that contributes to housing affordability in the District.

The Proposed District Plan does not contain a direct issue or objective relating to affordable housing. Under the heading “*Urban growth is managed in a strategic and integrated manner*”, is the following objective:

3.2.2.1 Urban development occurs in a logical manner so as to:

f. ensure a mix of housing opportunities including access to housing that is more affordable for residents to live in;

The current (ODP or PDP) objectives lack focus on the issue of affordability, relating the issue to either enabling opportunities for housing or better managing urban development. Neither of these two outcomes have been demonstrated to deal with the affordability issues facing the district.

9.2 Constructing issues statements

An issue is an existing or potential problem that must be resolved to promote the purpose of the RMA. However, issues can also be opportunities to assist in promoting the purpose of the RMA.

The Quality Planning website notes that issues statements should:

- identify an environmental problem (or opportunity for improvement) that the local authority can address under the RMA
- identify the cause of the problem or scope of the opportunity (where this is known)
- be specific to the district or region rather than abstract and generalised (even though the issue may also occur elsewhere)
- be succinct (explanations could be used if more detail is essential)
- include what is being affected, how it is being affected, and where
- if the issue is intermittent in nature or it relates to a specific timeframe or event, include information related to the circumstances that give rise to the issue, or its duration and frequency (i.e., 'when').

Final for Public Consultation - Not QLDC Policy - July 2021

9.2.1 Dimensions

As noted in section 2.0, a lack of affordable housing has a range of social and economic dimensions to it. These dimensions need to be tied back to RMA matters. The following table lists the affordable housing dimensions identified for the QLDC area and the associated RMA related matters.

Affordable Housing Dimension	RMA related issue
Lack of supply of affordable housing 'product'	<p>Capacity assessments indicate that zoning provides housing capacity in excess of demand, which suggests that land supply is not a first order constraint.</p> <p>Some additional steps may be able to be taken to reduce barriers to additional supply, but experience indicates growth pressures and other market factors (such as investor demands) quickly overwhelm any supply 'response'.</p> <p>Longer term, supply options will become more complex, costly and scarce (such as redevelopment). This will impact on affordability.</p>
Social, economic wellbeing of the district is harmed	<p>Social and economic well-being is being adversely affected, setting up a conflict with environmental management objectives. Left unresolved (that is, with no framework within which to balance the competing demands), this tension is likely to see ad hoc responses that do not contribute to sustainable management of land and resources.</p>
Spill over / displacement of growth to Central Otago	<p>Limited options for affordable housing within Queenstown is seeing growth displaced to other areas, such as Cromwell. This imposes infrastructure costs on these communities, while transport links need to be upgraded to cope with increased daily flows.</p>

9.2.2 Possible issues statement:

The following issue statement is proposed:

The combination of multiple demands on housing resources; the need to protect valued landscape resources for their intrinsic and scenic values and geographic constraints on urban growth 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.

9.3 Constructing an Objective

Objectives under the RMA are important in establishing the outcome to be achieved by subsequent provisions (policies and methods).

Objectives should state an end point rather than a method, flow from an issue and be within the terms of the RMA. In particular, objectives should be considered from the point of view as to whether the objective is the most appropriate way to achieve the purpose of this Act.

In terms of possible objectives, the Operative and Proposed District Plans both contain objectives that refer to affordability. However, both take an enabling approach, with the ODP objective referring to 'access' to affordable housing, and the PDP referring to ensuring a mix of housing that is 'more' affordable. In particular, the PDP could be said to have a focus on enabling relative affordability – housing that is more affordable than current market prices. While helpful, relative affordability will not address the more fundamental problem facing low to moderate income households.

A possible objective could be as follows:

Housing choices for low to moderate income households are incorporated into new neighbourhoods and in redevelopments of existing neighbourhoods so as to help meet social and economic needs while managing pressures for the expansion of urban areas.

The following table discusses the relevant operative and proposed district plan objectives and the possible above new objective against commonly used criteria.

Criteria	ODP	PDP	Possible objective
Directed to addressing a resource management issue	Addresses a broadly stated issue of access to housing	Reference to developing in a 'logical manner' links affordability to management of urban growth.	More directly focused on meeting community's social and economic needs in a way that supports wider goals relating to environmental management
Focused on achieving the purpose of the Act	Focus is on enablement, but leaves open questions of relationship	Affordability is tied to urban development being 'logical'. Not strongly tied to the	Relates directly to section 5 and managing resources while enabling social

Final for Public Consultation - Not QLDC Policy - July 2021

Criteria	ODP	PDP	Possible objective
	to management of resources	purpose of the district plans to sustainably manage resources	and economic outcomes
Assists a council to carry out its statutory functions	Relates to adequate supply of development capacity	Aimed at managing the effects of urban development	Aimed at integrated management of effects
Within scope of higher level documents	All of the three options are within scope of NPS-UD and the Otago Regional Policy Statement		
Is the objective clear in its intent?	The objective is somewhat ambiguous given its reference to both access to community housing and residential activities that provide affordable housing	The reference to development occurring in a 'logical manner' may create some confusion that implementation of the objective should focus on managing the timing and sequencing of urban development	The objective is focused on a particular outcome

The above discussion indicates that the current objectives (ODP or PDP) lack focus on the issue of affordability, relating the issue to either enabling opportunities for housing or better managing urban development. Neither of these two outcomes have been demonstrated to deal with the affordability issues facing the district. The possible new stand alone objective is clear in its intent and is likely to be a more appropriate objective.

10 Next Steps

10.1 Section 32

Taking forward an RMA-based affordable housing policy will require a range of matters to be addressed. Section 32 of the RMA requires analysis of the costs and benefits of any new planning provisions. In particular, before adopting any new provisions, Section 32 requires that:

An examination be undertaken of the extent to which the objectives of the proposal being evaluated are the most appropriate way to achieve the purpose of this Act; and

Determining whether the provisions in the proposal are the most appropriate way to achieve the objectives by:

- *identifying other reasonably practicable options for achieving the objectives; and*
- *assessing the efficiency and effectiveness of the provisions in achieving the objectives.*

Analysis will need to cover:

- the scope of any policy (what types of development it would cover)
- possible rates of requirement (eg 5%, 10%, 15%)
- analysis of the impact on feasibility of different rates on different types of development
- exclusions
- assessment processes.

10.2 Alternative Implementation Routes

Adjustments to the PDP issues, objectives and policies would be needed to implement any of the options. An inclusionary zoning approach tied to most residential developments will involve litigation risks under current RMA settings. Mitigation of risks could involve seeking either:

- Use of the streamlined plan making provisions of the RMA
- Specific legislative support for QLDC (given its unique characteristics and challenges)
- Incorporation of supportive tools in the proposed Natural and Built Environment Act.

The streamlined planning process is an alternative to the standard RMA Part 1 Schedule 1 process to prepare a plan change or review a plan. Use of the streamlined provisions of the RMA will require the Council to demonstrate that the proposal meets the criteria set out in the Act. For example, the proposed plan or plan change is needed to implement national direction or address a significant community need. Even if the relevant criteria are met, the proposed provisions will still need to meet the tests of the RMA. In other words, the inherent tension between an affordable housing requirement and national policy seeking to provide sufficient supply, remains.

In terms of process, a local authority can make a request to the responsible Minister for a streamlined planning process for developing or changing a district plan. If the Minister approves the request, he or she will issue a Direction to the local authority. The local authority must then

Final for Public Consultation - Not QLDC Policy - July 2021

follow the procedural steps and timeframes in the Direction rather than following the standard Part 1 Schedule 1 process. These steps and timeframes can be tailored by the Minister to suit the planning issues involved. At a minimum, any Direction issued by the Minister must at least provide for certain key steps, including consultation (if not already undertaken) and a submission process allowing those affected by the proposal to have a say.

The local authority must also submit its proposed plan or plan change to the Minister(s) for approval before it becomes operative. The local authority must meet any reporting requirements specified in the Direction and must have regard to the Minister's Statement of Expectations.

The alternative of specific legislation will also require that a case be made to the Minister of the Environment and/or Housing or Local Government. A specific 'affordable housing' legislative mandate for QLDC could build on legislation that has made place-based or topic-based amendments to the broad scheme of the RMA such as the SHA model, as well as models developed to protect specific resources (like the Waitakere Ranges Heritage Protection Act) or to address particularly complex planning environments (such as the legislation that set in place the Auckland Unitary Plan hearing process). These mandates, while amending the RMA, are justified on the need to address local specific issues that the general scheme of the RMA struggles to address in an efficient and effective manner.

The government is undertaking a review of the Resource Management Act. A new Natural and Built Environment Act (NBA) is proposed to work alongside a Spatial Planning Act. The shape and content of the NBA is not yet clear. Whether the new Act will provide a stronger platform for affordable housing requirements has yet to be determined.