

**Queenstown Lakes District Proposed District Plan
Section 32 Evaluation**

**For:
Inclusionary Housing
Report dated: 18 July 2022**

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1. EXECUTIVE SUMMARY

- 1.1. This report provides, as required by Section 32 of the Resource Management Act (RMA), an assessment of proposed objectives, policies and methods that seek to increase the amount of affordable housing in Queenstown Lakes District.
- 1.2. The report has been prepared to assist with policy development. The report provides a summary of the key alternatives considered in the development of the proposed provisions. Various background reports and working papers are attached and should be consulted for details.
- 1.3. Based on the analysis set out in this report and associated assessments, the Queenstown Lakes District Council has determined that district plan-based provisions relating to affordable housing will:
 - (a) assist the Council to fulfil its statutory functions and responsibilities as required by the RMA and the National Policy Statement on Urban Development 2020 (NPS-UD); and
 - (b) support the management of natural and physical resources in a way and at a rate that will contribute to the social, economic and environmental wellbeing of the district.
- 1.4. The affordable housing provisions should be based on a financial contribution model whereby the main form of contribution is a monetary contribution to Council which will be used for the express purposes of supporting the delivery of affordable housing via the Queenstown Lakes Community Housing Trust. In some cases, transfer of land (serviced lots) may be an appropriate method of compliance.
- 1.5. The rate of contribution should be based on 5% of vacant, serviced residential lots (or monetary equivalent) being transferred to Council at no consideration, or 2% of sale value of new houses for residential developments within urban environments and 1% for residential units in the Settlement Zone, Rural-Residential Zone, Wakatipu Basin Rural Amenity Zone Lifestyle Precinct and Special Zones (being Jacks Point Zone, Waterfall Park Zone, Millbrook Zone, Gibbston Valley, Hills Resort Zone, Hogan's Gully Resort Zone). This rate of contribution is based on a range of factors, including feasibility testing and taking into account a number of local contextual factors. The rate of contribution seeks to minimise any adverse impacts on the operation of the housing market and accords with local experience.
- 1.6. A new chapter to the PDP is proposed – Chapter 40. This will set out objectives, policies and methods related to affordable housing. A separate chapter is considered appropriate due to the importance of the topic to the sustainable management of natural and physical resources in the district.

- 1.7. The term 'inclusionary zoning' has been used during the development of this plan change. This term has the same meaning as 'inclusionary housing'. The term 'inclusionary housing' is proposed to be used in the planning provisions to align the provisions with the terminology used by Community Housing Aotearoa, and to assist plan users' understanding of the purpose of the provisions.

2. INTRODUCTION

- 2.1. The purpose of this report is to assess possible objectives and associated provisions which have the effect of improving access to affordable housing. It is proposed that there be a district plan-based requirement that residential developments support the delivery of dwellings that are affordable to households on low to median incomes, by contributing either land or money to Council. The objectives, policies and methods are referred to as the "affordable housing proposal".
- 2.2. Affordable housing is housing which is accessible to those on a low to moderate income with rent or mortgage repayments taking less than 35% of the household's income. To achieve this, affordable housing often involves some form of shared ownership or equity arrangement.
- 2.3. The Council is considering a modified form of "Inclusionary zoning". Inclusionary zoning is a commonly used planning method which seeks to create affordable housing as development occurs. It is a method which has been used successfully in the district in a number of specific areas to fund the work of the Community Housing Trust.
- 2.4. Section 32 of the RMA requires objectives in proposals to be examined for their appropriateness in achieving the purpose of the Act, and the policies and methods to implement those objectives to be examined for their costs, benefits, efficiency, effectiveness and risks in achieving the objectives.
- 2.5. The report is structured as follows:
 - Section 3 briefly addresses the purpose and scope of a section 32 report
 - Sections 4 and 5 set out the wider context of the district plan review and relevant statutory framework including higher order RMA documents
 - Section 6 briefly sets out background to the preparation and consultation on the proposed provisions

- Sections 7 and 8 identify the nature and extent of the district's housing problem and the steps taken to define outcomes
- Sections 9 and 10 review the proposed RMA issue statement and objectives
- Sections 11 evaluates options to implement the objectives.

3. CONTEXT

3.1. When preparing a district plan, section 74 of the RMA requires the council to have regard to an evaluation report prepared in accordance with section 32 of the RMA. The evaluation report must be made available at the time of notification. Failure to undertake an evaluation can be grounds for submission in opposition to the proposed provisions.

3.2. The evaluation must cover:

Whether the objectives are the most appropriate way to achieve the RMA's purpose (Section 32(1)(a)). The purpose of the RMA is as set out in Part 2 and covers sections 5 to 8.

Whether the provisions (policies and methods) are the most appropriate way to achieve the objectives (Section 32(1)(b)) by:

- (i) identifying other reasonably practicable options for achieving the objectives*
- (ii) assessing the efficiency and effectiveness of the provisions in achieving the objectives, and*
- (iii) summarising the reasons for deciding on the provisions.*

3.3. In undertaking the assessment of efficiency and effectiveness of policies and methods, the following must be addressed:

identify and assess the benefits and costs of the environmental, economic, social, and cultural effects that are anticipated from the implementation of the provisions, including the opportunities for—

- (i) economic growth that are anticipated to be provided or reduced; and*
- (ii) employment that are anticipated to be provided or reduced; and*
- (iii) if practicable, quantify the benefits and costs; and*
- (iv) assess the risk of acting or not acting if there is uncertain or insufficient information about the subject matter of the provisions.*

3.4. In completing the above assessments (for objectives and provisions), the following matters are relevant:

(a) The evaluation must provide a level of detail that corresponds to the scale and significance of the environmental, economic, social and cultural effects that are anticipated from the implementation of the proposal (Section 32(1)(c));

(b) It must summarise all advice concerning the proposal received from iwi authorities under the relevant provisions of Schedule 1; and summarise the response to that advice, including any provisions of the proposal that are intended to give effect to the advice;

(d) If the proposal amends an already existing plan, the examination must relate to:

- the provisions and objectives of the amending proposal; and
- the objectives of the existing proposal to the extent that those objectives are relevant to the objectives of the amending proposal; and would remain if the amending proposal were to take effect.

3.5. In relation to these matters, it is noted that:

a) The proposal is considered to be significant. The proposed objective and provisions, will, if implemented, result in a significant variance from the existing baseline methods in the Operative and Proposed District Plans while the proposal may impose increased costs or restrictions on individuals, communities, or businesses.

b) No advice from iwi has been received.

c) Some costs and benefits can be quantified, but most costs and benefits relate to intangible outcomes associated with environmental, economic and social wellbeing.

d) The proposal will amend a proposed district plan.

3.6. In terms of the key tests in section 32, effectiveness is taken to mean the contribution new provisions make towards achieving the objective, and how successful they are likely to be in solving the problem they were designed to address. Efficiency measures whether the provisions will be likely to achieve the objectives at the highest net benefit across social, economic and environmental domains.

4. DISTRICT PLAN REVIEW

4.1. The review of the Operative District Plan ('ODP') is being undertaken in stages.

4.2. Stage 1 of the District Plan review introduced a new strategic directions chapter (Chapter 3) that will largely replace Chapter 4 of the ODP. Chapter 3 of the Proposed District Plan (PDP) provides

the overarching strategic direction for the Queenstown Lakes District and contains high-level issues, objectives and policies. The Chapter 3 objectives and policies are further elaborated on in PDP Chapters 4 – 6 relating to urban development, tangata whenua and rural landscapes.

- 4.3. Strategic Issue 1 in Chapter 3 of the PDP recognises that the district's economic prosperity and equity, including strong and robust town centres, and the social and economic wellbeing and resilience of the District's communities may be challenged if the District's economic base lacks diversification.
- 4.4. Access to housing that is more affordable is referred to in Policy 3.2.2.1 - Urban growth is managed in a strategic and integrated manner.
- 4.5. Currently (as of May 2022), Chapter 3 of the Proposed District Plan is in the 'appeals stage'. Resolution of the appeals may see the modification of the issues and objectives and policies in the decisions version of Chapter 3.
- 4.6. Of note, Chapter 3 decisions version of the PDP does not replace Section 4.10 of the ODP. Section 4.10 sets out an objective and three policies relating to affordable and community housing (as introduced by Plan Change 24). The ODP does not contain any methods to implement the objectives and policies of 4.10, with the matters addressed in 4.10 taken into account in relevant plan changes and resource consents.
- 4.7. The QLDC Operative District Plan uses the term community housing when referring to affordable housing. Community housing is defined as being "Residential Activity that maintains long term affordability for existing and future generations through the use of a Retention Mechanism, and whose cost to rent or own is within the reasonable means of low- and moderate-income households".

5. STATUTORY POLICY CONTEXT

Resource Management Act 1991

- 5.1. Section 5 sets out the purpose of the RMA, which requires an integrated planning approach and direction to promote the sustainable management of natural and physical resources. Guidance as to how the overall sustainable management purpose is to be achieved is provided in other sections, including sections 6, 7 and 8 of Part 2 of the Act:

5 Purpose

(1) The purpose of this Act is to promote the sustainable management of natural and physical resources.

(2) In this 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—

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

5.2. Section 6 of the RMA sets out a number of matters of national importance that are to be recognised and provided for. These matters have the effect of constraining urban growth and development options, including:

(b) the protection of outstanding natural features and landscapes from inappropriate subdivision, use, and development:

(h) the management of significant risks from natural hazards.

5.3. Section 7 lists “other matters” that Council shall have particular regard to and those most relevant include the following:

(b) the efficient use and development of natural and physical resources:

(c) the maintenance and enhancement of amenity values:

(f) maintenance and enhancement of the quality of the environment:

(g) any finite characteristics of natural and physical resources.

5.4. Section 8 requires that Council take into account the principles of the Treaty of Waitangi (Te Tiriti o Waitangi). The principles as they relate to resource management derive from Te Tiriti o Waitangi itself and from resource management case law and practice.

5.5. Section 31 of the RMA is also relevant. This section sets out the functions of Councils under the RMA. These cover:

(a) the establishment, implementation, and review of objectives, policies, and methods to achieve integrated management of the effects of the use, development, or protection of land and associated natural and physical resources of the district

(aa) 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

(b) the control of any actual or potential effects of the use, development, or protection of land.

- 5.6. Section 76 provides for district rules. A Council may, for the purpose of carrying out its functions under this Act and to achieve the objectives and policies of the plan, include rules in a district plan.
- 5.7. Section 108 of the RMA provides scope for conditions to be attached to resource consents requiring that a financial contribution be made. Financial contributions may be in the form of land or money. Section 108 (10) states that a consent authority must not include a condition in a resource consent requiring a financial contribution unless:
- (a) the condition is imposed in accordance with the purposes specified in the plan or proposed plan (including the purpose of ensuring positive effects on the environment to offset any adverse effect); and*
- (b) the level of contribution is determined in the manner described in the plan or proposed plan.*
- 5.8. Section 77E clarifies that a Council may make a rule requiring a financial contribution for any class of activity other than a prohibited activity. That is, the financial contribution may apply to a permitted activity. Sec 77E (c) further states that, in addition to sec 108 requirements listed above, the district plan should state when the financial contribution will be required.

National Policy Statements

- 5.9. When preparing district plans, councils must give effect to any National Policy Statement (NPS).
- 5.10. The 2020 NPS on Urban Development (NPS-UD) is relevant. The national policy statement aims to enable well-functioning urban environments. These are environments that contribute to people's social and economic wellbeing by providing access to a range of house types, locations and price points. One of the methods included in the policy statement to increase affordability is to significantly expand the supply of housing opportunities through up-zoning. This is expected to contribute to minimising artificially inflated house prices at all levels and contribute to housing affordability overall.
- 5.11. Queenstown is a Tier 2 urban area under the terms of the NPS-UD. Policy 5 of the NPS is relevant. This states:

Regional policy statements and district plans applying to tier 2 and 3 urban environments enable heights and density of urban form commensurate with the greater of:

- i. the level of accessibility by existing or planned active or public transport to a*

- range of commercial activities and community services; or*
- ii. *relative demand for housing and business use in that location.*

- 5.12. The Council is currently determining how it will respond to this policy.
- 5.13. The NPS-UD requires the Council to undertake regular Housing and Business Capacity Assessments. The most recent Housing Development Capacity Assessment was undertaken in 2021¹, and its findings are considered in this report.
- 5.14. The Resource Management (Enabling Housing Supply and Other Matters) Amendment Act came into force in January 2022. This Act requires Tier 1 councils (which does not include Queenstown Lakes District Council) implement Medium Density Residential Standards (MDRS). Tier 2 and Tier 3 councils may only be required to implement the MDRS if the Environment Minister requires that they do so. So far, no such requirement has been made to QLDC.

Regional Policy Statements

- 5.15. Section 75 of the Act requires that a district plan prepared by a territorial authority must “give effect to” any operative Regional Policy Statement. The Partially Operative Otago Regional Policy Statement 2019 is relevant. District Plans must also have regard to any proposed Regional Policy Statement. The 2021 Proposed Otago Regional Policy Statement is therefore also relevant.
- 5.16. Salient provisions of the Partially Operative Otago Regional Policy Statement 2019 are set out in Attachment Two. The Partially Operative Policy Statement sets a general direction for urban development to provide sufficient capacity to meet future needs and which offers a range of housing choices.
- 5.17. The Policy Statement imposes some constraints on where urban development can occur: For example, Policy 4.5.1 of the 2019 Policy Statement refers to urban development having particular regard to:
- a) *Providing for rural production activities by minimising adverse effects on significant soils and activities which sustain food production;*
 - b) *Minimising competing demands for natural resources;*
 - c) *Maintaining high and outstanding natural character in the coastal environment; outstanding natural features, landscapes, and seascapes; and areas of significant indigenous vegetation and significant habitats of indigenous fauna;*
 - d) *Maintaining important cultural or historic heritage values;*
 - e) *Avoiding land with significant risk from natural hazards.*

¹ [Housing Development Capacity Assessment 2021 Queenstown Lakes District 15 September 2021](#)

5.18. The 2019 Regional Policy Statement was developed to give effect to the National Policy Statement – Urban Development Capacity 2016 (NPS-UDC) which has been superseded by the NPS-UD 2020. The 2021 Proposed Otago Regional Policy Statement has been prepared in the context of the 2020 NPS-UD. Relevant matters are identified in Appendix Two.

5.19. The approach taken in the 2021 proposed policy statement is to enable existing urban areas to grow and change in response to the changing needs and preferences of the people who live, work, visit and recreate in them, so as to maximise the positive aspects of urban areas, and ensure they are as well-functioning as possible. However, this is tempered within a framework that requires careful planning to be undertaken in advance of development occurring, which can define and articulate limits and opportunities, ensure integration with the development of infrastructure, and maintain those values and characteristics that make each urban environment special.

Iwi Management Plans

5.20. There are two relevant iwi management plans in the district:

Kāi Tahu ki Otago Natural Resource Management Plan 2005

Te Tangi a Taura – The Cry of the People

5.21. The above plans do not directly address affordability issues; however they place importance on protecting and enhancing natural environments. The preparation of this proposal has had regard to these two documents.

5.22. Refer to Appendix Two for a full list of objectives and policies from relevant statutory plans.

6. PREPARATION and CONSULTATION

6.1. QLDC has been seeking to address housing affordability issues over a long period of time. Previous work includes:

- (a) The 2005 QLDC HOPE Strategy²
- (b) Various stakeholder deeds with individual developments
- (c) Plan Change 24 (notified in October 2007)
- (d) 2017 Mayoral Taskforce on Housing Affordability³
- (e) Council's Special Housing Areas policy

²

https://www.qldc.govt.nz/assets/OldImages/Files/Strategies/Affordable_Housing_Strategy/HOPE_Affordable_Housing_Strategy.pdf

³ Mayoral Housing Affordability Taskforce, Queenstown Lakes District October 2017

- (f) The Council's 2021 Homes Strategy⁴, which is supportive of delivering 'inclusionary zoning' as a means to address access to affordable housing.

6.2. Other important inputs include:

- Housing Development Capacity Assessment 2021 Queenstown Lakes District
- Queenstown Lakes Spatial Plan, July 2021
- Queenstown Lakes Homes Strategy.

6.3. Preparation of this proposal has involved:

- (a) Issues and Options paper
- (b) Working paper on particular issues
- (c) Feasibility testing of hypothetical developments in Queenstown and Hāwea
- (d) Economic assessment of inclusionary zoning
- (e) Drafting provisions
- (f) Community consultation over August/September 2021.

6.4. Public consultation (under the Local Government Act) on the Homes Strategy and associated affordable housing initiative was held from 16 August to 26 September 2021. A variety of methods and materials were used to invite feedback and engagement, including:

- (a) Newspapers and radio
- (b) Social media tools and QLDC website
- (c) Web site and feedback form.

Draft provisions were made available as part of this engagement process.

6.5. The Council received 52 emailed submissions and 156 submissions through the planning for affordable housing survey. The emailed submissions were generally from lawyers representing property developers or land holders, while the survey responses tended to be from individuals or environmental or community groups.

6.6. Survey respondents generally favoured (71.2% of responses) updating the district plan to implement a mandatory requirement to include some retained affordable housing in new housing developments – applied to both new development and redevelopments.

⁴ <https://www.qldc.govt.nz/your-council/major-projects/housing-in-the-queenstown-lakes/queenstown-lakes-homes-strategy>

- 6.7. Emailed responses generally favoured a focus on increasing supply of housing opportunities and not pursuing a mandatory approach. They were concerned that any affordable housing requirement will slow housing supply and push up prices.
- 6.8. The Ministry for the Environment and Ministry of Housing and Urban Development's joint submission noted that:
- There is some merit with the use of inclusionary zoning (IZ), if the design and implementation of the tool considers the context of where it will be applied (i.e. is place-based).
 - If well designed and signaled well in advance the cost of IZ will primarily fall on landowners in the long-term.
 - "Costs" are therefore a reduction in future value gain, rather than a direct out-of-pocket cost and would get factored into land values and pricing of developable land, recognising the desired outcome from IZ.
 - There is, however, a potential risk to short-medium term feasibility that could have detrimental impacts on the supply of housing by the market, if not managed well.
 - Careful consideration of transition to and introduction of IZ is essential to mitigate this potential risk.

7. DEFINING THE PROBLEM AND CURRENT POLICY RESPONSE

- 7.1. Queenstown Lakes District records high median house prices, but average household incomes. For the District as a whole, the lower-quartile median house price was \$689,286 in July 2019 rising to \$929,328 in April 2022⁵. This compares to a lower quartile house price of \$482,089 in Christchurch City. Mean weekly rents are in the order of \$500 to \$550⁶. Mean household income in 2022 is assessed as \$122,822 (compared to a national average of \$117,497)⁷.
- 7.2. While measures of housing affordability vary, Queenstown Lakes consistently records low levels of affordability:

⁵ Quotable Value NZ: <https://www.qv.co.nz/price-index/>

⁶ <https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/StandardOfLiving/Rent>

⁷ https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/StandardOfLiving/Household_Income

- a. In May 2022, it was estimated that average house prices in the district are 13.9 times average household incomes. The New Zealand wide ratio of incomes to house prices is 8.8⁸.
 - b. In terms of income versus all expenses faced by households, the 2018 Quality of Life Survey for Queenstown Lakes District⁹ recorded that 21% of interviewed households can cover expenses but have no disposable income left, while 3% cannot cover all their expenses.
 - c. MBIE data¹⁰ suggests that 43% of renting households have incomes below the national average, after accounting for housing costs.
 - d. One 2020 assessment of ownership affordability¹¹ calculates that to buy a home at Queenstown-Lakes District's lower quartile price, a two-income household on median incomes would need to devote 51.4% of their take home pay to mortgage payments. Mortgage payments are considered unaffordable when they take up more than 40% of take-home pay.
- 7.3. Council's 2021 Housing Capacity Assessment is that affordability in QLD will decline in the future for non-owner households, and that this trend is not attributable to slow or restricted zoning and associated infrastructure delivery. There is adequate housing supply overall but a significant shortfall of affordable dwellings in the short, medium and long terms. The shortfall of affordable dwellings is estimated to be at just under 7,000 dwellings for non-owner households by 2050, compared with an estimated current shortfall of 2,350 affordable dwellings¹².
- 7.4. Community consultation on possible affordable housing options undertaken in August and September 2021 shows high levels of concerns about access to affordable housing amongst community groups and individuals. These concerns echo those identified over a long period of time, including the Council's 2005 HOPE Strategy and the 2017 Mayoral Housing Affordability Taskforce.

⁸ https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/StandardOfLiving/Housing_Affordability

⁹ Queenstown Lakes District Council Quality of Life Report 2018

¹⁰ <https://www.hud.govt.nz/research-and-publications/statistics-and-research/housing-affordability-measure-ham/>

¹¹ <https://www.interest.co.nz/property/home-loan-affordability>

¹² Housing Development Capacity Assessment 2021 Queenstown Lakes District 15 September 2021 – Final, Page 212

- 7.5. The causes of the lack of affordable housing options are varied. They include fast and sustained population growth, demand for housing from a range of sectors including second home buyers, holiday homes and international and local investors. High construction costs are also evident. On the income side of the equation, the tourism-orientated economy tends to generate mostly low paid jobs.
- 7.6. Looking at simple demand and supply measures, between the 2013 and 2018 censuses, the district's resident population increased by an estimated 10,929 people (usually resident population as defined by Statistics New Zealand). This is a 39% increase over the five years. The number of dwellings (occupied and unoccupied) is estimated to have increased by 3,483 over the same time period. 954 of these extra dwellings are identified as being unoccupied on the night of the census. Occupied dwellings increased by 2,529. This equals one new house per 4.3 new residents.
- 7.7. As of 2013, the district had 11,190 occupied dwellings housing a resident population of 28,244 people, or 2.5 residents per dwelling. If the 2013 ratio of people per dwelling had been maintained between 2013 and 2018, then 4,400 dwellings would need to have been built to house the 10,929 additional residents. This is almost 1,800 more than what was actually built. Since 2018, Statistics NZ estimate that resident population has grown by 5,800 people, while 3,600 dwellings have been issued Building Consents. This has seen a reversal of trends, from an under-build to a potential over-build.
- 7.8. There are a variety of reasons as to why there appears to have been a low rate of new builds versus population growth during the mid-2010s. These may include changing demographics (average household size for new households may be higher than the average for the population as a whole); there may be a lag between population growth and house building; while the 2018 census data is subject to a range of quality assurance issues which may involve undercounting. Equally, there may be planning-related or construction industry-related constraints on new housing supply.
- 7.9. Consideration of longer-term trends show the complex pattern of 'overs and unders'. For example, data from Ministry for Business, Innovation and Employment's 'Urban Development Capacity' dashboard¹³ suggests that in the 2000s, the district had an oversupply of dwellings relative to population growth (resulting in a relatively low average number of people per dwelling in 2013). During the 2010s population growth accelerated. In the last 5 years, dwelling supply (as measured by building consents issued) has kept pace with population growth, and if anything,

¹³ <http://urban-development-capacity.mbie.govt.nz/>

over the past year has exceeded population growth, as growth in the resident population has stalled. See Figure 1.

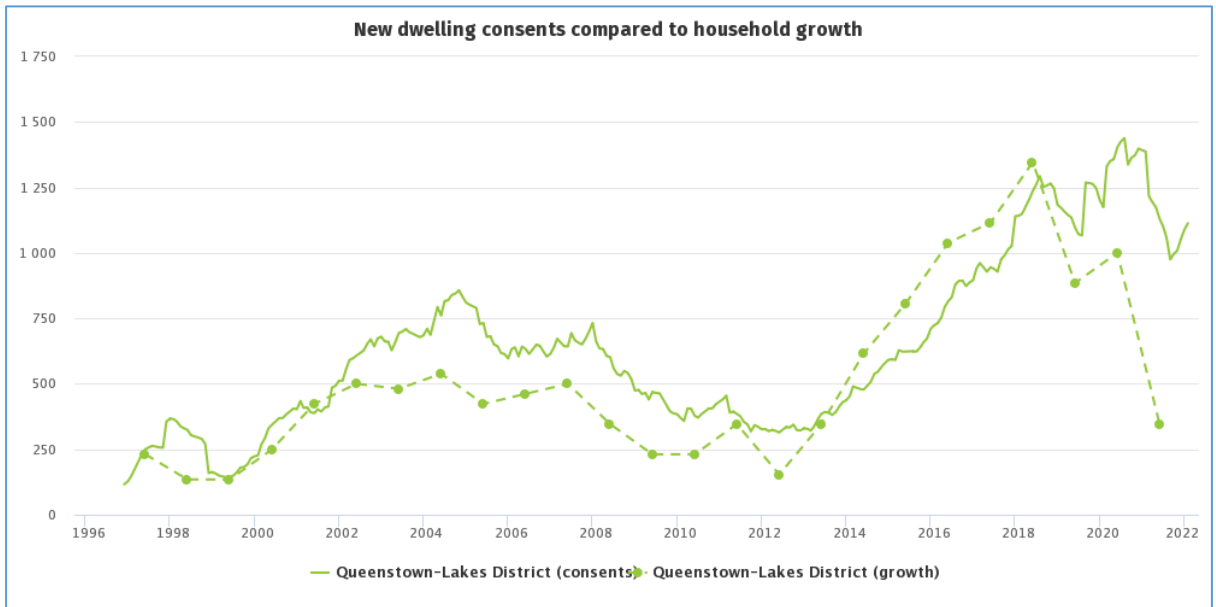
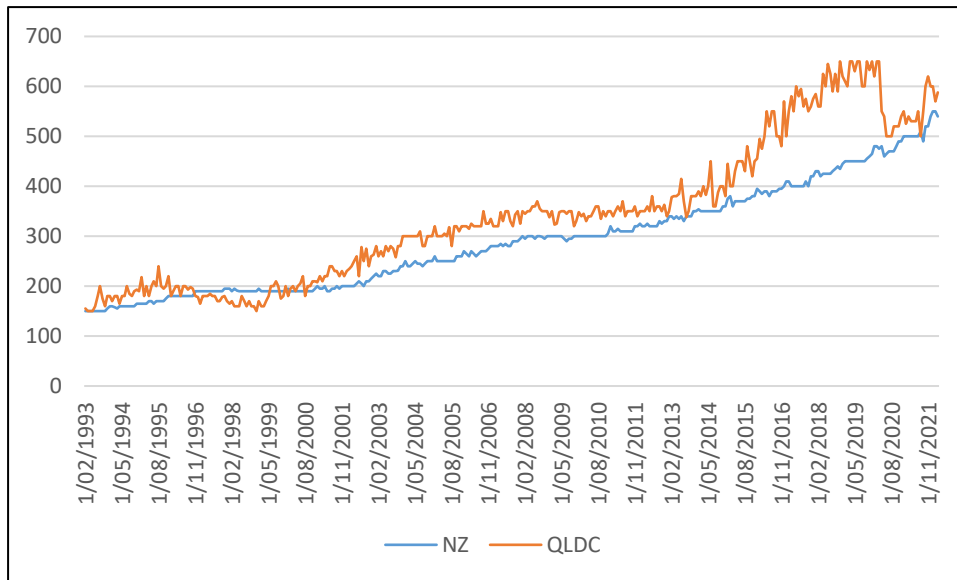


Figure 1 New dwellings versus population growth - QLD

- 7.10. When house rental data for the district is reviewed, there is a clear acceleration in median rents from 2016, relative to national averages. This accords with the fast population growth experienced during this period. Increasing rents are an indicator that demand for housing as a place to live (rather than as an investment asset) is outstripping supply.

- 7.11. Figure 2 shows mean weekly rent as recorded by the Ministry of Business, Innovation and Employment, for QLD and for New Zealand. Up to 2016, mean weekly rents in the District were similar to New Zealand; between 2016 and 2019 QLD rents increased to a point where they were about 40% above the national median. This acceleration indicates that housing supply was lagging demand. Since 2019, rents have declined to be closer to the New Zealand average.

Figure 2 Mean weekly rent (\$), QLDC versus NZ.



Source: MBIE rental data

- 7.12. Data on zoning capacity to build more houses under current district plan settings suggests that rising rents and possible under supply of dwellings is not the result of constrained development opportunities.
- 7.13. Council’s most recent assessment is that, based on a high growth projection, there will be demand for an additional 17,000 dwellings by 2050¹⁴.
- 7.14. The 2021 Housing Capacity Assessment has found that in total, there is capacity for an additional 47,900 dwellings across the urban environment, in the medium term. This capacity rises to an extra 64,500 dwellings in the long term, taking into account the Spatial Plan proposals.
- 7.15. Approximately 60% of the capacity enabled by zoning occurs within the greenfield areas of urban expansion. For existing urban areas, the capacity estimate involving subdivision/land use development where additional dwellings are constructed around the existing dwelling stock without removing existing dwellings is 11,000 dwellings. If redevelopment involving the removal of existing housing is taken into account, then capacity expands to 25,000 dwellings.

¹⁴ Housing Development Capacity Assessment 2021 Queenstown Lakes District 15 September 2021 – Final, Page 2

- 7.16. An estimated 67% of this additional capacity would be commercially feasible to develop in the medium term (based on current prices and construction costs), and 80% would be commercially feasible by 2050 (capacity of just over 51,300 additional dwellings or 70,130 total dwellings); more than sufficient capacity to meet projected demand in all locations.
- 7.17. While there is sufficient capacity at an aggregate level, there is a mismatch between the likely value of the new dwellings to be supplied and the affordability of these dwellings for residents. Demand is clustered in the \$600,000 to \$800,000 band, while supply is strongest in the \$1.3 to \$2.0m mark. Wakatipu Ward indicates potential for a shortfall of detached housing, with an equivalent surplus of attached housing, while the opposite is indicated in the Wānaka Ward.
- 7.18. Not all of the dwelling capacity available will be realised due to the need to obtain relatively high prices for a substantial bulk of the available capacity. There is the possibility that given the demand for lower value dwellings, the market may shift to offering lower priced dwellings. However, despite this potential, there is little evidence of this occurring.
- 7.19. The on-going lack of access to affordable housing has a range of social, economic and environmental consequences. These can be summarised as follows:

Social: *reduction in social cohesion and 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 re zonings and fast track processes. The rezonings or housing areas may affect landscapes and/or other environmental resources,*
- *displacement of housing demand to Central Otago District,*
- *additional traffic movements as workers commute from Wānaka, Cromwell etc.*

- 7.20. Quantifying the costs of unaffordable housing is not easy. In terms of costs to the economy, housing affordability is a contributing factor in QLD's very high labour turnover rate. Sense Partners estimate that the higher labour turnover rate is costing businesses and the local economy \$105m-\$200m a year. For each worker made more secure and stable in their home, community and work, the wider economic benefit is \$55,000 - \$110,000¹⁵. High turnover is not just an issue for private sector businesses. Attracting and retaining public sector workers (teachers, police, health workers) is very important to community well being

¹⁵ See Sense Partners Report - Attachment 3g

7.21. There are other modest positive economic benefits from improved access to housing, such as better mental health, better educational outcomes, and lower household bills. There are larger associated wellbeing benefits, but they are hard to quantify. Sense Partners estimate that these benefits may be as high as \$170m per year.

7.22. There are also potential benefits from reduced commute times for some households. A number of households who have members working in Queenstown have located in Cromwell due to more affordable housing.

Current policy

7.23. Current policy response to affordability involves a mix of regulatory and non-regulatory measures. The main regulatory tool has been increasing development capacity through plan changes (public and private) that have rezoned rural land for housing. Through these plan changes – and the review of the operative district plan – the capacity to accommodate residential development is in excess of expected demand.

7.24. The Council has enabled a number of Special Housing Areas. Council's acceptance of Special Housing Areas was dependent upon 5 to 10% of new lots being transferred to the Queenstown Lakes District Housing Trust. This requirement is set out in a Council policy. The use of Special Housing Areas has now ceased as the enabling legislation has been discontinued.

7.25. A number of legacy plan changes for specific areas incorporate a requirement for a contribution to affordable housing. These provisions were offered by the requestors of the plan changes and most predate the review of the district plan.

Community Housing Trust

7.26. The main non-regulatory tool has been the establishment of the Queenstown Lakes District Community Housing Trust. This Trust was established in 2007 and has received a range of support from the Council. The Trust has utilised public money and contributions from developments to build a range of affordable housing products. To date the Trust has delivered affordable housing to 243 families and individuals. The Trust's work has been funded through a combination of direct Council contributions (land), through deeds negotiated with developers via private plan changes to the Operative District Plan, and through the more recent Special Housing Area process.

7.27. To date the Trust has built and delivered a total of 8 housing developments on land received through an inclusionary zoning-type process (be this private plan changes under the RMA, or through the more recent Special Housing Area process). These are detailed in Table 1 below.

Table 1 Homes developed through inclusionary zoning

Development	Year completed	No. of Homes	RMA / SHA
Nerin Square, Lake Hayes Estate	2013	27	RMA
Shotover Country	2016	44	RMA
Riverside, Wānaka	2017	11	RMA
Northlake, Wānaka	2018	2	RMA
Shotover Country	2019	6	SHA
Hikuwai, Wānaka	2021	6	RMA
Alps View, Lake Hayes Estate	2022	13	SHA

7.28. The Trust has construction underway of a further 10 homes at Northlake, whilst it is looking to commence construction on sections in Longview, Hāwea later this year and civil works on its 68-Lot Tewa Banks project (Jopp St, Arrowtown) in spring 2022. See Table 2 for the pipeline of the Trust's upcoming developments delivered through inclusionary zoning.

Table 2 Homes to be developed through inclusionary zoning

Development	Estimated completion date	# of Homes	RMA / SHA
Northlake, Wānaka	2023	10	RMA
Longview, Lake Hāwea	2025	68	SHA
Coneburn, Queenstown	2026	60	SHA
Tomasi, Arthurs Point	2026	9	SHA

7.29. The Council has a Relationship Framework Agreement (RFA) with the Queenstown Lakes Community Housing Trust. This agreement was first signed in 2019 and is required to be reviewed within three years of being executed. Councillors agreed at a full Council meeting on 30 June 2022 to make minor amendments to the agreement, as agreed in advance with the Trust.

Longer term planning

7.30. Longer term, the 2021 Spatial Plan promotes a consolidated and mixed-use approach to accommodating future growth in the Queenstown Lakes District. This means most of the change needed to accommodate the additional houses, jobs and visitors expected over the next 30 years will occur within the Wakatipu and Upper Clutha areas, primarily by growing within and around

the existing urban areas of Queenstown and Wānaka. A limited amount of land (beyond current zoning) is expected to change from rural to urban uses over the next 30 years. Urbanisation of these areas will be phased with the delivery of enabling infrastructure.

- 7.31. Three new future urban areas are identified for investigation in the Wakatipu area - the Te Pūtahi / Eastern Corridor and at the northern and southern ends of the Te Tapuae / Southern Corridor. These locations integrate with existing development and are located on the proposed frequent public transport network. They will support local services, community facilities and provide more affordable housing choices. The proposed Te Pūtahi/Ladies Mile Plan Change was recently¹⁶ endorsed by Councillors to be progressed through the Streamlined Planning Process.
- 7.32. Two new future urban areas are identified for investigation in the Upper Clutha area. There is an opportunity for Wānaka to expand to the south-west, towards the Cardrona Valley, up to the area bound by the Outstanding Natural Landscape. There is also an opportunity for Hāwea to expand to the south, avoiding the flooding hazard areas, to create a settlement of a scale that supports public transport to Wānaka, a local centre and community facilities.

8. HOUSING MARKET ISSUES

- 8.1. A key issue in any consideration of any intervention in housing markets is the scope for unintended consequences, given local circumstances and characteristics. While local market dynamics may not deliver affordable housing, this may not in itself be a justification for active intervention in the market.
- 8.2. Concerns about the impact of any affordable housing requirement on the viability of development has been a theme of engagement with residential subdividers and builders. This includes the potential for negative impacts on housing prices and housing supply.
- 8.3. Important factors in local housing demand and supply relationships are:
- (a) Population growth is driven by people moving into the district (rather than through natural increase).
 - (b) The district is prone to housing “booms and busts” as rates of inward migration wax and wane.
 - (c) Housing supply is relatively slow to respond to short term changes in demand due to local geographic constraints.

¹⁶ <https://www.qldc.govt.nz/your-council/council-documents/agendas-minutes/full-council#2022-agendas>

- (d) Home buyers appear to be relatively insensitive to prices, because of the unique amenities of QLD, with home buyers absorbing the associated higher prices.
 - (e) While existing older homes provide the bulk of the affordable product in most cities, in the case of QLD, the youthful age of the housing stock and rapid growth in population mean that the 'second hand home market' remains relatively unaffordable.
 - (f) Over time there will be a shift in focus from greenfields to more of a mix of greenfields and brownfields development. This will accelerate the replacement of older (more affordable) housing stock in brownfields areas.
 - (g) Unless measures are in place to support delivery of a range of housing price points, an increase in the housing stock will not necessarily flow into more affordable products.
- 8.4. QLDC's experience to date has been that negotiated, district plan-based affordable housing methods have increased the stock of retained affordable housing with no perceptible negative impact on housing supply, house prices, house size or quality. While this may be because only those developments that can afford a transfer of land or money have offered a contribution, it also demonstrates that there is scope within current development settings for affordable housing contributions to be viable.
- 8.5. Often, inclusionary zoning policies are presented as a tax on housing. In considering the adverse impacts on housing supply of a targeted 'tax' the following is noted:
- (a) A targeted 'planning wind fall gain tax' on land is preferable, rather than the tax falling on developers or residents,
 - (b) The 'tax' is applied to a related 'public good' - retained affordable housing - which assists with sustaining long term urban growth options,
 - (c) 'Incidence/cost' will, over time, be absorbed by land, if the IZ policy is accompanied by increased housing supply options and the affordable housing contribution is not too high.
- The economic impact report by Sense Partners¹⁷ addresses these points in more detail.
- 8.6. Going forward, while there is a clear windfall gain to landowners when land is shifted from a rural to an urban use, any affordable housing scheme needs to also apply to brownfields areas as well as greenfields. Land value uplift in brownfields areas does occur but is usually more modest in scale. It may be associated with zoning changes, resource consents or new infrastructure (such as improved transport links or better local recreational facilities).

¹⁷ Attachment 3g

9. ISSUE STATEMENT

- 9.1. The following key issue has been identified as the central theme associated with the proposal. The evaluation of the appropriateness of possible objectives and provisions is based upon addressing the following broad resource management issue:

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 aspects of the district's housing market cannot function efficiently, with long term consequences for low to moderate income households needing access to affordable housing.

- 9.2. The issue relates to Section 5 of the RMA and its requirement that natural and physical resources must be managed in a way and at a rate, that provides for the wellbeing of people and communities, whilst managing adverse effects on the environment. The statutory meaning 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.
- 9.3. In short, the use or development of land within the Queenstown Lakes district has the effect, or potential effect, of pushing up land prices of scarce urban land thereby impacting on affordable housing within the district. The Council has the ability to control those effects through its district plan, subject, of course, to the plan ultimately withstanding scrutiny on its merits. The 'scope' to actively address housing affordability comes from section 31, 72 and section 76.
- 9.4. Under section 31 of the RMA, councils' functions include:
- i. the establishment, implementation, and review of objectives, policies, and methods to achieve integrated management of the effects of the use, development, or protection of land and associated natural and physical resources of the district: and
 - ii. 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.

- 9.5. Section 72 sets the purpose of district plans. 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.
- 9.6. Section 76 provides scope for Council's to include district plan rules for the purpose of carrying out its functions under the Act and to achieve the objectives and policies of the plan. Section 76 (3) states that in making a rule, the territorial authority shall have regard to the actual or potential effect on the environment of activities including, in particular, any adverse effect.
- 9.7. Section 76 however does not confine the council to just manage adverse effects. For example, section 108 provides that financial contributions may be imposed in accordance with the purposes specified in the plan or proposed plan (including the purpose of ensuring positive effects on the environment to offset any adverse effect).
- 9.8. Case law has established that an RMA-based affordable housing requirement can be within scope of the RMA. A 2010 High Court decision 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. However, the shape and form of any requirement needs to satisfy the relevant statutory tests.
- 9.9. The NPS-UD provides further direction that development capacity must be across types of houses and price points, lending further support to affordable housing being within scope of the RMA. In particular, Policy 1's description of well functioning urban environments includes urban areas that have or enable a variety of homes that:
- (a) *meet the needs, in terms of type, price, and location, of different households; 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*
 - (d) *support, and limit as much as possible adverse impacts on, the competitive operation of land and development markets; and*
 - (e) *support reductions in greenhouse gas emissions.*

10. EVALUATION OF PROPOSED OBJECTIVES SECTION 32(1)(A)

- 10.1. Section 32(1)(a) requires an examination of the extent to which proposed objectives are the most appropriate way to achieve the purpose of the Act. There is no formal requirement to consider a range of objectives. The test of 'most appropriate' pertains to the appropriateness of the objective, rather than inferring any meaning of superiority. Having said that, considering a range of objectives helps to identify relative benefits.

10.2. The following table lists a number of criteria¹⁸ that can be used to help identify whether an objective is 'appropriate'.

Table 3: Criteria for testing objectives

Criterion	Relevant section of RMA
Directed to addressing a resource management issue	Does the objective relate to or clearly link to the issue?
Focused on achieving the purpose of the Act	Does it address a Part 2 matter?
Assists a council to carry out its statutory functions	Falls within Section 31 functions?
Within scope of higher-level documents	Section 72 – give effect to national policy statements, regional policy statements?
Is the objective clear in its intent?	Does it set an outcome (or end state) to be achieved? Is the objective ambiguous or uncertain?

10.3. The ODP and PDP contain objectives that are relevant to the consideration of affordable housing. These are listed below. As noted, the PDP does not replace the relevant objectives and policies of the ODP.

10.4. Based on a review of these objectives, a new stand-alone strategic objective is proposed, along with an objective to sit in a new chapter in the PDP specifically related to affordable housing.

ODP objective 4.10.1

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

Current PDP Objectives

3.2.2 Urban growth is managed in a strategic and integrated manner (addresses Issue 2)

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

a.

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

For reference, Issue 2 of Chapter 3 of the PDP is as follows:

¹⁸ As set out in Ministry for the Environment guide-to-section-32-of-resource-management-amendment-act-1991

Growth pressure impacts on the functioning and sustainability of urban areas, and risks detracting from rural landscapes, particularly its outstanding landscapes.

Proposed additional Objectives

Strategic objective:

3.2.1.10 Affordable housing choices for low to moderate income households are provided in new residential developments so that a diverse and economically resilient community representative of all income groups is maintained into the future.

Chapter 40: Objective:

40.x.x: Provision of affordable housing for low to moderate income households in a way and at a rate that assists with providing a range of house types and prices in different locations so as to support social and economic well-being and manage natural and physical resources, in an integrated way.

10.5. The following table discusses the four objectives against the criteria set out above.

Table 4: Assessment of Objectives

Criteria	ODP Objective 4.10.1	PDP Objective 3.2.2.1	Proposed additional objective under Strategic Objective 3.2.2 and new Chapter 40
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 urban development better meeting community's social and economic needs
Focused on achieving the purpose of the Act	Focus is on enablement, but leaves open questions of relationship to protection of resources	Affordability is tied to urban development being 'logical'. Not strongly tied to the purpose of the district plans to sustainably manage resources	Relates directly to section 5 and managing resources while enabling social and economic outcomes

Criteria	ODP Objective 4.10.1	PDP Objective 3.2.2.1	Proposed additional objective under Strategic Objective 3.2.2 and new Chapter 40
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 resources
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' is very broad	The objectives are focused on a particular outcome of importance to wellbeing and integrated management

10.6. The above discussion indicates that the current objectives (ODP and 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 strategic objective is clearer in its intent and is considered to be an appropriate objective to include under 3.2.2. The objective provides specific direction on an important aspect of urban development and complements the more general “supply” orientated matters set out in 3.2.2.1.

10.7. The more operationally focused objective to be included in a new Chapter 40 provides a more robust framework to address housing issues, recognising the relationship with the management of natural and physical resources.

11. EVALUATION OF THE PROPOSED PROVISIONS SECTION 32(1)(B)

11.1. This section addresses the range of provisions (policies and methods) that could be used to implement the new objective. Section 32 requires that a range of options be considered. The following section considers whether the proposed provisions are the most appropriate way to achieve the relevant objectives. In doing so, it considers the costs and benefits of the proposed

provisions and whether they are effective and efficient. For the purposes of this evaluation the proposed options are broken down into two levels – higher order, broad level methods and more detailed methods to implement the preferred general direction.

11.2. In considering which options to address, over August and September 2021, Council sought public feedback on possible affordable housing provisions. This occurred as part of consultation on Council's Homes Strategy. Background and analysis reports prepared were made available. An on-line survey was run. 52 written submissions were received, and 156 submissions were made through the on-line planning for affordable housing survey.

11.3. Mixed views were presented:

- Business groups / developers tended to support a voluntary approach to affordable housing provision
- Individuals / community groups supported greater certainty of outcome (and therefore were more supportive of mandatory requirements).
- Ministry of Housing and Urban Development / Ministry for the Environment noted qualified support, with concerns over housing market impacts.

11.4. Concerns raised in the feedback covered:

- Affordable housing requirements being outside the scope of RMA
- Any requirement will slow housing development and push up prices
- Voluntary agreements have worked in the past
- Should also apply to businesses, not just residential developments
- Consultation / analysis to date weighted towards Council's option.

11.5. These matters are addressed in the evaluation which follows.

11.6. The decision tree of cascading options to increase the supply of affordable housing can be described as follows:

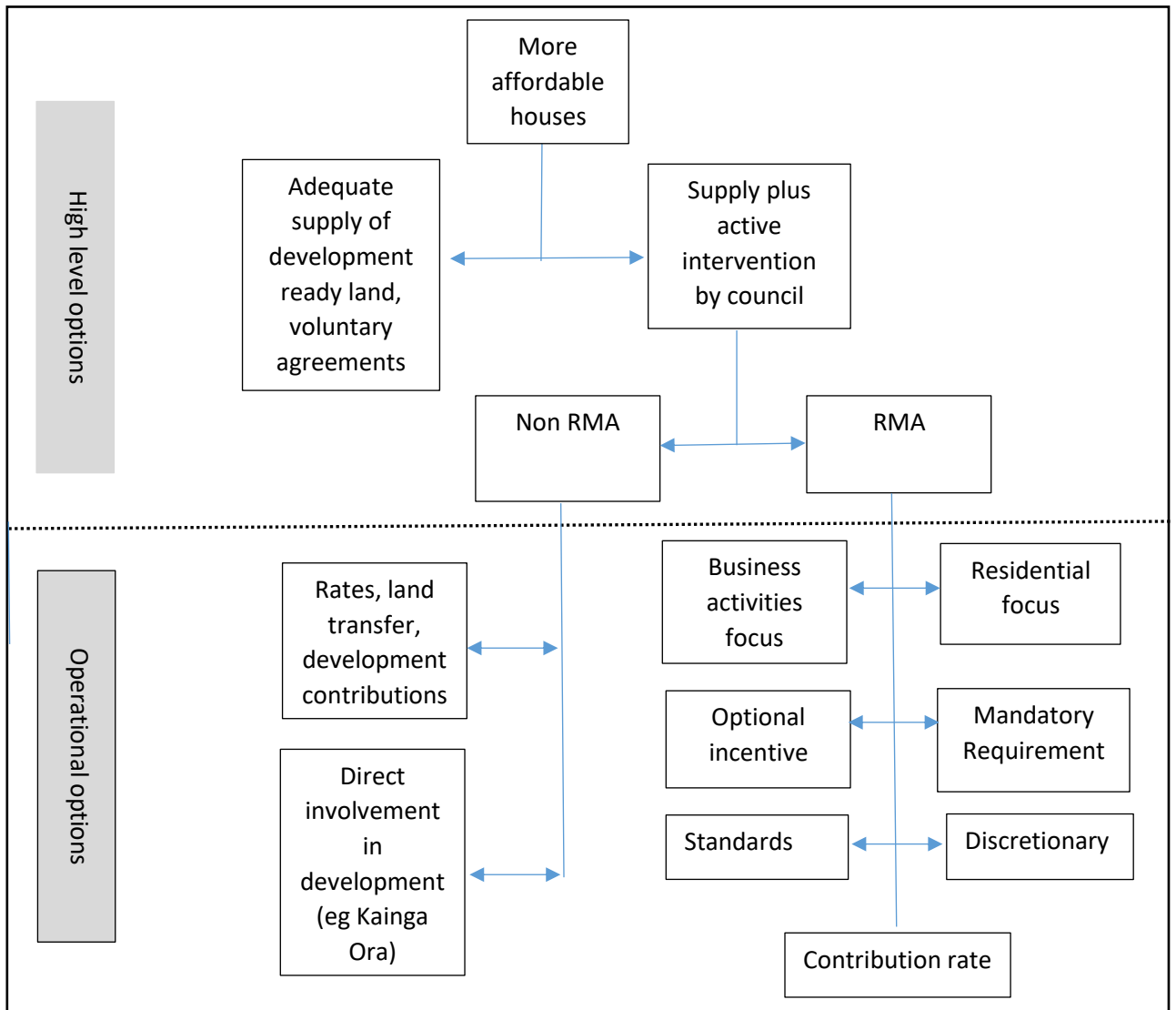


Figure 3: Decision tree

High level policy options 1: greater supply of zoning capacity and voluntary agreements or adequate capacity and active intervention.

- 11.7. Under this set of options, affordable housing would either be addressed through accelerated supply of zoned and infrastructure ready development land (greenfields and brownfields) supported by voluntary affordable housing contribution agreements, or through some form of active intervention. The active intervention option would still involve a large element of ensuring sufficient supply of land to meet demand.
- 11.8. The “more supply” option would seek to lower and maintain cheaper land prices through enabling a large pool of zoned land available for development, ensuring that this pool is spread across a range of landowners, reducing the benefits of hold outs and land banking. Enabling more intensive use of land already zoned for development would also be important. A large pool of developable land would be aimed at meeting population growth, but also allowing for existing households to trade up to a new house, freeing existing stock for use by low to moderate income households.
- 11.9. The extent to which the pool of developable land would need to be in excess of demand to place a downward pressure on land prices is unknown. Council’s current estimate¹⁹ is that long term demand is for an additional 16,500 urban dwellings (accounting for 97% of total district housing growth), or by 19,200 inclusive of the NPS-UD competitiveness margins. The Operative and Proposed District Plans, combined with the Draft Spatial Plan (indicative urban expansion areas only), has greenfields plus maximum infill and redevelopment capacity of nearly 65,000 additional dwellings, in the long term. This is roughly a 1 to 3 ratio between demand and possible supply.
- 11.10. To a large extent the ‘supply’ option has been pursued over the past 10 years in response to high house prices. Over that time there have been a number of significant rezonings in Queenstown and Wanaka. Special Housing Areas have further added to supply. Despite these measures urban land prices and house prices have increased substantially.
- 11.11. While it may be argued that the extent of greenfields re-zonings and density uplift in brownfields areas is insufficient to affect land and house prices, there are a range of reasons why in the Queenstown Lakes District context, there will always be limitations on the nature and extent of

¹⁹ Housing Development Capacity Assessment 2021 Queenstown Lakes District, 15 September 2021 – Final. Page 2.

rezonings possible. This includes landscape issues, as well as the ability of Council to fund necessary network infrastructure extensions.

11.12. While additional supply will not deliver affordable housing by itself, it is still necessary for the district plan to monitor take up of capacity, and to expand capacity as need be, whatever affordable housing strategy is pursued.

11.13. With regard to voluntary agreements, feedback on possible provisions noted that the work of the Community Housing Trust to date has been supported by a number of voluntary agreements between Council and developers, either through stake holder deeds or private plan change provisions being offered by requestors. The feedback suggested that there was scope to continue with a voluntary approach into the future.

11.14. Relevant to this point is that the stakeholder deeds and plan change requests referred to generally occurred prior to the review of the district plan or occurred within the framework of the Special Housing Areas legislation. That is, there was a wider environment that supported a negotiated approach whereby land developers were willing to enter into discussions due to the benefits of Council support for plan changes and/or Special Housing Area identification. This environment has shifted over the past few years. Special Housing Area legislation has been repealed, while housing capacity has expanded under the plan review (and will be further expanded in response to the NPS-UD). This means voluntary agreements can no longer be relied upon to create a pipeline of affordable housing contributions.

11.15. With regard to active intervention, this comes with risks of potential unintended consequences. Intervention may be in the form of direct Council involvement in land and house development, or via regulatory methods. The two most cited adverse consequences for any regulatory method are the potential for the price of other housing in a residential development to be raised to cover the costs of the affordable housing requirement, slowing the rate of housing development. These issues are discussed more fully in the Issues and Options report and in the economic assessment prepared by Sense Partners²⁰.

11.16. On-the-ground evidence from Queenstown Lakes District suggests that these theoretical arguments are not borne out in practice, or if they are, they are a marginal effect which needs to be considered alongside the benefits of the requirement.

²⁰ Attachment 3g

11.17. Sense Partners tested the implications of an estimated permanent 1% increase in house prices in the district as a result of an affordable housing scheme, even though they found no evidence of affordable housing increasing neighbouring house prices. In this case, the total economic benefit of the affordable housing policy would be \$3m over 30 years discounted at 6%. In other words, benefits and costs were roughly even. In the best case, using conservative assumptions and not including wider wellbeing benefits, the benefits outweigh costs by \$101m (discounted at 6%, over 30 years).

Table 5: Summary costs and benefits

More supply and negotiation or supply plus intervention		
Option	Costs	Benefits
Supply in excess of demand	<p><i>Environmental</i></p> <ul style="list-style-type: none"> On-going pressure to rezone rural land, develop sensitive landscapes <p><i>Economic</i></p> <ul style="list-style-type: none"> Stress on council finances to fund infrastructure ahead of demand Lower returns for landowners of developable land <p><i>Social & Cultural</i></p> <ul style="list-style-type: none"> May not result in the provision of affordable dwellings, or if they are supplied, their concentration in specific areas 	<p><i>Environmental</i></p> <ul style="list-style-type: none"> May see less pressure for brownfields type developments <p><i>Economic</i></p> <ul style="list-style-type: none"> Possible lower land values for developers <p><i>Social & Cultural</i></p> <ul style="list-style-type: none"> May provide more choice for households over living options. Supports (full) home ownership for those households with sufficient income.

More supply and negotiation or supply plus intervention		
Option	Costs	Benefits
Sufficient supply and intervention	<p><i>Environmental</i></p> <ul style="list-style-type: none"> • May result in increased density of development <p><i>Economic</i></p> <ul style="list-style-type: none"> • May see some extra costs for development, but these costs are likely to be transitional in nature. • Likely lower land values of developable land due to additional requirement • Council will have additional monitoring requirements <p><i>Social & Cultural</i></p> <ul style="list-style-type: none"> • Likely require alternative forms of home ownership that may be seen to be sub optimal (but more secure than rental) 	<p><i>Environmental</i></p> <ul style="list-style-type: none"> • Can work in within current urban growth framework of managed release of greenfield land and greater brownfields development <p><i>Economic</i></p> <ul style="list-style-type: none"> • Will assist with business costs and sustainability through helping to house workforce <p><i>Social & Cultural</i></p> <ul style="list-style-type: none"> • Helps to ensure mixed communities and retain key workers. • Will help ensure that on-going growth assists with improved social and economic wellbeing, including educational and health outcomes and more resilient communities.

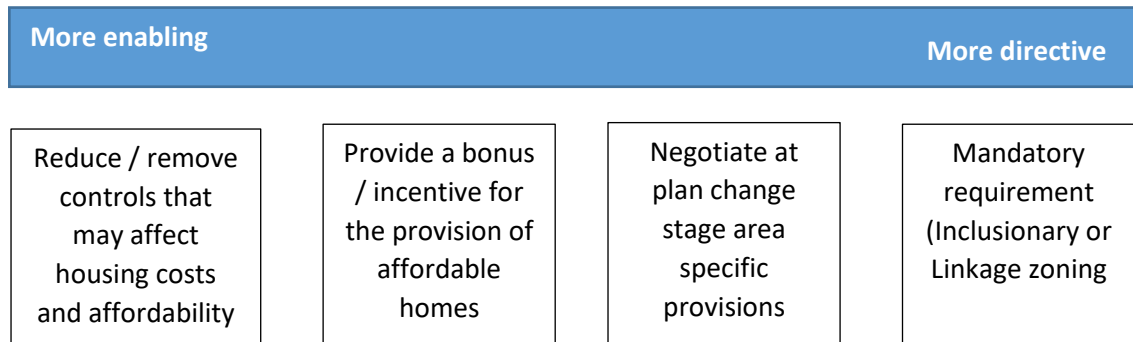
Option	Efficiency	Effectiveness
More supply plus negotiation	Less efficient	Less effective
Supply plus intervention	More efficient	More effective

11.18. In summary, while maintaining adequate supply of land for housing is important, it is not by itself a sufficient strategy to ensure a supply of affordable houses.

Higher level policy options 2: RMA methods versus Non-RMA

11.19. The next issue to address is the nature of Council intervention, and whether it should be RMA or non-RMA based. The following diagram shows the range of high-level RMA options available to address the issue and implement the objective.

Figure 4: Spectrum of interventions



11.20. These RMA focused options sit alongside a range of non-regulatory methods that are or could be used. These include:

1. Direct financial support of the Community Housing Trust
2. Use of development contributions
3. Use of targeted rates
4. Development of Council-owned land
5. Bylaws.

11.21. It is noted that in addition to the above other methods, a number of Councils directly provide social housing (such as Wellington and Christchurch) and/or have supported the development of a Community Housing sector through transfer of stock (such as pensioner housing being placed in the hands of a community housing organisation). Neither of these options are viable for Queenstown Lakes District. Councils that provide social housing generally developed their housing portfolios in the mid-20th century by way of government grants for such housing. For example, Christchurch City Council has been providing rental accommodation for people with a serious housing need since 1938. Generally, Council's housing policies require that social housing be financially self-supporting and not funded from rates. Furthermore, QLD has no dedicated pensioner housing.

11.22. 'Impact fees' are a common tool in America to secure affordable dwellings and are similar to development or financial contributions. These fees are levied to offset the additional impact created by new development, including the need for local parks or community facilities. Impact fees can be the mechanism used to operationalise an inclusionary zoning scheme, or payments made in lieu of unit obligations in larger projects. Impact fees usually require a stand-alone public agency to utilise the funds gathered to provide housing.

11.23. Council's scope to strike rates or impose development contributions is constrained by a number of Acts. A 2021 memo on alternative mechanisms to secure affordable houses provides an assessment of the extent to which Council can use financial tools to promote affordable housing²¹. The following comments are relevant to the possible 'other' methods.

Table 6: Discussion on non-RMA methods

Method	Example	Issues
Direct financial support for Housing Trust, transfer of council owned land	Council could continue to help fund expansion of the Housing Trust stock through a capital grant and/or annual subsidy or transfer of council land	The Council has invested over \$1.5m in the Trust between 2007 to 2019. Council faces considerable demands to provide infrastructure to help meet growth needs and has limited financial means within current budgets to support the Trust. Council has limited 'surplus land'
Development contributions	New development (lots or dwellings) pays a one-off contribution to identified public services like provision of public housing	The Local Government Act does not allow for collection of development contributions for the purposes of affordable housing
General or Targeted rate	New subdivisions and selected development areas pay an extra annual rate to go towards affordable housing provision	Targeted rates could be levied, but they are costly to administer. Targeted rates must be directed at the provision of a specific service or activity so council would need to develop a programme of works that could then justify the rate. The rate would apply to existing and new houses, raising complex issues in brownfields areas.
Bylaws	A Bylaw could make it unlawful to develop or subdivide land if no affordable housing is incorporated.	Council's powers to approve Bylaws are heavily prescribed. A bylaw regulating the provision of affordable housing would not fit within any of the existing topics or matters for which bylaws are formulated

²¹ See Attachment Three for a link to this memo

- 11.24. In addition to the above points, these non-RMA options require the Council or the Community Housing Trust (or any equivalent organisation) to work within the prevalent market conditions. For example, the Trust would need to acquire land at market prices and build units at cost. It is likely that for the resulting units to be affordable to median income households, the units would need to be on-sold and/or rented at a level that is less than the development costs. This implies the need for an on-going subsidy to ensure a continuous supply of housing. This in turn places the programme at risk of changes in Council funding priorities, especially given a general resistance to funding increased Council costs. In addition to sustainability, direct involvement is likely to see a concentration of affordable units in lower cost areas.
- 11.25. On the positive side, the non-RMA options involve a transparent public subsidy, which is a measure of good public policy. They involve funding sources that may be able to be spread across a large base, reducing the extent of individual impact. Owners of developable land are likely to benefit the most from these types of approaches. The landowners benefit when land is rezoned from rural to urban and Council helps fund extension of network infrastructure. The landowner who develops the land would also likely benefit from the Council (or community) having to buy serviced land to build affordable housing. Council's (or the Trust's) direct involvement in affordable housing supply may relieve some pressure on developers to offer affordable product, with their focus shifting to higher end options.
- 11.26. Non-RMA methods have a role to play in the provision of affordable housing. However, ramping up these methods to meet the challenge present in QLD would require significant expenditure. This expenditure would need to be sourced and spent in a way separate to RMA-based processes. This 'dual track' creates inefficiencies and does not recognise the substantial benefits that flow to landowners from public actions that facilitate urban development.
- 11.27. Is it generally held that benefits are created as a result of a public agency, such as the decision by a local authority – acting on behalf of the wider community – to rezone land for housing, and /or from public infrastructure agencies like Waka Kotahi / NZTA to improve transport capacity to development areas. These benefits are not all attributable to the efforts of landowners to improve their land assets and increase their value through private investment and improvement. This means that since some benefits are publicly created, it is reasonable for the wider community to appropriate a share of the value that their actions generate; and in the context of increasing housing supply, ensuring that a share of the development gain flows to the community can also have a vital role in providing funding for affordable housing supply.

11.28. In this context, a contribution to affordable housing 'levied' at the start of the urban development process is more effective than seeking to fund housing provision once development is underway (such as through targeted rates). All parties would know the rate and level of the contribution in advance. Therefore, when developers come to calculate the costs of construction, they will be able to pass the cost of contribution back to the landowner through lower priced bids for land, while still seeing a substantial gain to landowners. Furthermore, there would be little scope to pass the tax forward to the consumer in the form of higher house prices, as the price of new houses is largely set by the price of existing dwellings.

Table 7: Intervention options

RMA or Non-RMA interventions		
Option	Costs	Benefits
Non-RMA	<p>Environmental</p> <ul style="list-style-type: none"> • May see diversion of council resources away from infrastructure expansion and upkeep <p>Economic</p> <ul style="list-style-type: none"> • Stress on Council finances to fund schemes • Administrative costs to Council to administer targeted rates. <p>Social & Cultural</p> <ul style="list-style-type: none"> • May not result in the provision of affordable dwellings, or if they are supplied, their concentration in specific areas 	<p>Environmental</p> <ul style="list-style-type: none"> • May see more pressure for brownfields type developments from council-led redevelopment <p>Economic</p> <ul style="list-style-type: none"> • No potential for adverse impacts on development <p>Social & Cultural</p> <ul style="list-style-type: none"> • May provide more choice for households over living options. • Supports (full) home ownership for those households with sufficient income

RMA or Non-RMA interventions		
Option	Costs	Benefits
RMA	<p>Environmental</p> <ul style="list-style-type: none"> • May result in increased density of development <p>Economic</p> <ul style="list-style-type: none"> • May see some extra costs for developers, but these costs are likely to be transitional in nature. • Likely lower land values of developable land due to affordable housing requirement • Council will have additional monitoring requirements <p>Social & Cultural</p> <ul style="list-style-type: none"> • Likely require alternative forms of home ownership that may be seen to be sub optimal (but more secure than rental) 	<p>Environmental</p> <ul style="list-style-type: none"> • Can work in within current zoning framework <p>Economic</p> <ul style="list-style-type: none"> • Will assist with business costs and sustainability through helping to house workforce • More effective delivery mechanism – affordable housing core part of the planning process, not an “add on” at the end • Part of land value uplift is directed towards public outcome <p>Social & Cultural</p> <ul style="list-style-type: none"> • Help to ensure mixed communities and retain key workers

Option	Efficiency	Effectiveness
Non-RMA	Less efficient	Less effective
RMA	More efficient	More effective

11.29. In summary, while non-RMA interventions are supported by the development sector, they require additional funding from the community which may not be sustainable.

Operational policy options 1: RMA mandatory versus incentive-based

11.30. This set of options considers whether any RMA-based intervention (over and above maintaining housing supply options) should focus on a mandatory scheme versus an incentive-based scheme. For example, many affordable housing programmes that operate in US jurisdictions provide for a mix of mandatory requirements and incentives. This mix can reflect political agreements, and/or technical considerations relating to greenfields and brownfields

developments. In particular, incentives are often attached to brownfields development due to the more limited (or complex) viability of such developments compared to greenfields developments.

11.31. Incentives may be in the form of additional height or building coverage, or faster processing times.

The Council's use of Special Housing Area legislation to obtain a contribution towards affordable housing involved a form of incentive, with Special Housing Areas only requiring limited notification, the delivery of consent for residential use of rural land within 12 months and no appeal rights on decisions. Introducing such incentives under the RMA is not within the Council's powers. Incentives are complex to justify, given that they implicitly involve some form of trade-off between amenity and social goals relating to housing. Incentives that provide additional building height above zone standards, for example, suggest some form of impact on adjacent properties or the wider neighbourhood. Conversely, if there is no such impact, then the zone standards are likely too constraining. So, two points arise: Firstly, if the additional height is justified on effects grounds, then why should this benefit be confined to proposals that offer affordable dwellings? Secondly involving the affected parties (e.g. neighbours) in the consent process would inevitably reduce the attractiveness of any bonus.

11.32. Mandatory requirements ensure that 'all players' are treated equally. Additional requirements are known upfront and can be factored into feasibility assessments. Known contribution rates also assist the Community Housing Sector (like the Queenstown Lakes Community Housing Trust) with their business planning. Whether a mandatory requirement may slow or defer some brownfields redevelopment is discussed in the next section.

Table 8: Mandatory versus incentive schemes

Incentive versus mandatory		
Option	Costs	Benefits
Incentives	<p>Environmental</p> <ul style="list-style-type: none"> • Additional amenity impacts in brownfields where incentives are taken up. <p>Economic</p> <ul style="list-style-type: none"> • Contribution rates will likely be less than a mandatory scheme and be unpredictable 	<p>Environmental</p> <ul style="list-style-type: none"> • Some change in existing neighbourhoods in terms of housing mix and character. <p>Economic</p> <ul style="list-style-type: none"> • Less risk of distortions to development process. Developers and house builders incorporate affordable dwellings where it makes financial sense, given bonus available.

Incentive versus mandatory		
Option	Costs	Benefits
	<p>Social & Cultural</p> <ul style="list-style-type: none"> Potentially less involvement of third parties in consent processes 	<p>Social & Cultural</p> <ul style="list-style-type: none"> Bonus or incentive may be most attractive in high value areas where a mix of market rate and affordable dwellings may be beneficial
Mandatory requirements	<p>Environmental</p> <ul style="list-style-type: none"> May result in increased density of development as developers compensate for extra requirement <p>Economic</p> <ul style="list-style-type: none"> May affect the viability of some developments, especially brownfields, resulting in less housing production, but these effects will likely be transitory as market conditions adjust <p>Social & Cultural</p> <ul style="list-style-type: none"> May favour some types of households who are eligible for affordable housing. 	<p>Environmental</p> <ul style="list-style-type: none"> Can work in within current emphasis on greenfields growth <p>Economic</p> <ul style="list-style-type: none"> Simpler to implement than bonus scheme More certainty over contribution 'pipeline' <p>Social & Cultural</p> <ul style="list-style-type: none"> More likely to help meet community needs Broadens range of housing tenure choices

Option	Efficiency	Effectiveness
Incentives	Less efficient	Less effective
Mandatory	More efficient	More effective

11.33. In summary, while incentives are attractive at a superficial level, use of incentives creates significant issues with district plan implementation.

Operational policy 2: Residential versus non-residential

11.34. This option concerns whether the affordable housing scheme should be directed at just residential developments, non-residential (business) development, or both. For example, Plan Change 24 as notified was directed at business development, on the basis that employment growth generated housing demand. It was therefore appropriate that new business development

contributed to affordable housing. Affordable housing programmes aimed at business activities is often known as linkage zoning.

11.35. The advantages of linkage zoning are that there is a direct link between employment growth and demand for housing. However, linkage zoning is more complex to administer than inclusionary zoning. This is due to the wide range of business activities in the district and their varying rates of employment. For example, there is a large seasonal workforce, while employment demand varies greatly between retail/commercial and visitor-related enterprises.

11.36. In contrast, the residential sector has more of a complex interaction with housing affordability. Building houses does not, of itself, add to affordability issues. However, the residential housing stock is subject to a wider range of pressures than the business sector, such as holiday homes, second homes, investor demand, and demands for short term rentals to meet seasonal worker needs and visitor accommodation. Collectively, these demands can exceed demands to expand housing stock generated by population growth, with consequent disablement of social and economic wellbeing of sectors of the community. Sectors that are disadvantaged can include workers in important service sectors like teachers, police and health workers. Households with these types of occupations are unlikely to be addressed by linkage zoning provisions.

11.37. It is also relevant that to date affordable housing schemes in the district have focused on the residential sector, such as Special Housing Area contributions. The residential land use sector is also the sector that has seen substantial rises in land values (uplift) from the requirements of the NPS-UD, the District Plan review and in the longer term, from the Spatial Plan. Rates of business development is more muted, in part due to limited options for more industrial and business zones. With the policy shift under the NPS-UD to more explicitly focusing planning on housing capacity and enabling a wider range of housing types and price points, targeting the residential sector is more in-line with high order directives than a focus on the business sector.

Residential v non-residential		
Option	Costs	Benefits
Focus on residential land uses	<p>Environmental</p> <ul style="list-style-type: none"> • May be some pressure for unplanned residential areas as a means of meeting requirements and some spill over growth in Central Otago <p>Economic</p> <ul style="list-style-type: none"> • Economic benefits accrue to business community through more stable labour force, yet they contribute only indirectly <p>Social & Cultural</p> <ul style="list-style-type: none"> • Housing may be some distance from services and facilities 	<p>Environmental</p> <ul style="list-style-type: none"> • Contribution will flow from planned residential developments and new neighbourhoods, reducing pressure for unplanned growth to address affordability issues <p>Economic</p> <ul style="list-style-type: none"> • Residential land values are more stable and often experience the greatest uplift when rezoning occurs. Business land uses face more variability in uplift and decline as patterns of work and consumption change <p>Social & Cultural</p> <ul style="list-style-type: none"> • Helps to develop mixed residential communities

Residential v non-residential		
Option	Costs	Benefits
Non-residential land use	<p>Environmental</p> <ul style="list-style-type: none"> • May be pressure for business and industrial land to be used for affordable housing putting pressure on stock of business land <p>Economic</p> <ul style="list-style-type: none"> • Likely to be high transaction costs in determining appropriate contribution rates across diverse businesses • May be limited new business / industrial growth due to restricted land supply and changing work practices <p>Social & Cultural</p> <ul style="list-style-type: none"> • Delivery of affordable housing may be directed to areas where labour force pressures are high (e.g. seasonal workers), rather than more sustainable communities 	<p>Environmental</p> <ul style="list-style-type: none"> • May lead to greater focus on brownfields redevelopment to help support affordable product close to businesses <p>Economic</p> <ul style="list-style-type: none"> • Business are one of the main beneficiaries of affordable housing programmes <p>Social & Cultural</p> <ul style="list-style-type: none"> • Will aid in creating more mixed use communities

Option	Efficiency	Effectiveness
Residential	More efficient	More effective
Non-residential	Less efficient	Less effective

11.38. A focus on the residential sector will be more effective than seeking contributions from business activities. This is because of the greater certainty over level of contributions given residential growth patterns (compared to more variable business development cycles); history to date of contributions being sourced from residential development and the outcome of securing diverse neighbourhoods.

11.39. There is an option that involves contributions from both the residential and non-residential sectors. For example, in Sydney, the inner city Green Square redevelopment area has a residential contribution of 3% of the total floor area that is to be used for residential uses, and 1% for non-residential floor area. In the context of QLD and the diverse pressures on affordability from various forms of residential development and the significant expansion of residential capacity signalled by the Spatial Plan, it is appropriate to target the residential sector.

11.40. With a focus on the residential sector, a subsequent issue is what type of residential development should be subject to the requirement, such as residential development in the outer lying settlements (such as Glenorchy), rural-residential development and residential development in special zones. It is proposed that a contribution first and foremost be required from residential development within urban growth boundaries. Contributions will also be sought from residential development outside growth boundaries, but at a reduced rate to that applying to subdivision or development in urban growth boundaries. The focus on development within existing and future urban growth boundaries reflects the public commitment to the provision of trunk infrastructure networks to these areas, and consequent benefits to land values. A lesser contribution from other forms of residential development (such as residential development in resort zones) is appropriate as these developments also influence house prices and supply of affordable dwellings.

11.41. The table below lists the range of zones that provide for residential activities in the district and assesses whether they should be subject to an affordable housing levy.

Table 9: Zones analysis

Zone	Description	Subject to proposed Affordable Housing Levy
Lower density suburban residential zone	The zone is the largest residential zone in the District and lies within the urban growth boundaries ²² .	Yes – within urban growth boundary
Medium density residential	The zone is situated in locations in Queenstown, Frankton, Arrowtown and Wānaka that are within identified urban growth boundaries, and easily accessible to local shopping zones, town centres or schools by public transport, cycling or walking.	Yes – within urban growth boundary
High density residential	The zone provides for efficient use of land within close proximity to town centres and	Yes – within urban growth boundary

²² Except for a small pocket outside the UGB (at Luggate) located on the side of the Settlement Zone

Zone	Description	Subject to proposed Affordable Housing Levy
	Arthurs Point that is easily accessible by public transport, cycle and walk ways.	
Arrowtown Residential Historic	This zone covers the older part of the residential settlement of Arrowtown. The purpose of this zone is to allow for the continued sensitive development of the historic area of residential Arrowtown.	Yes – within urban growth boundary
Large Lot Residential	Provides low density living opportunities within defined urban growth boundaries. The zone generally provides for a density of one residence per 2,000m ²	Yes – within urban growth boundary
Queenstown, Wānaka Arrowtown Town Centres	Residential activities and visitor accommodation activities are enabled, as well as a range of commercial activities	Yes – within urban growth boundary
Business Mixed Use zone	The zone provides for complementary commercial, business, retail and residential uses. Residential activities could make up a large percentage of a site.	Yes – within urban growth boundary
Settlement Zone	The Settlement Zone applies to the settlements of Glenorchy, Kinloch, Kingston, Luggate, Makarora and Cardrona. The Zone provides for areas of low density residential living.	Yes – but a reduced rate to reflect lower influence of public actions on land values. Outside urban growth boundary.
Rural Residential	The Rural Residential zone provides residential living opportunities on the periphery of urban areas and within specific locations amidst the Rural Zone.	Yes – but limited development likely
Rural Lifestyle	The Rural Lifestyle zone provides for rural living opportunities with an overall density of one residential unit per two hectares across a subdivision.	No – main purpose is landscape protection
Wakatipu Basin Lifestyle Precinct	The Precinct is applied to specific areas of land within the broader Rural Amenity Zone that have capacity to absorb rural living development. These areas have a variety of existing lot sizes and patterns of development,	Yes – lower density residential type development is possible
Jacks Point Zone	The purpose of the Jacks Point Zone is to provide for residential, rural living, commercial, community and visitor accommodation comprising residential areas, two mixed use villages.	No, subject of separate agreement

Zone	Description	Subject to proposed Affordable Housing Levy
Waterfall Park Zone	The purpose of the zone is to provide for the development of a visitor resort comprising a range of visitor, residential and recreational facilities, sympathetic to the natural setting.	Yes – but at reduced rate
Millbrook	The zone provides for recreational activities (including golf), commercial, residential and visitor accommodation together with support facilities and services	Yes – but at reduced rate
The Hills	The zone provides for visitor industry activities, residential activities (including staff accommodation), and a small-scale commercial area.	Yes – but at reduced rate
Hogan's Gully	The zone enables the development of a golf course and associated commercial activities, along with visitor accommodation and limited residential activities.	Yes – at reduced rate

11.42. There are also different forms of residential development to consider such as retirement complexes, lodges and boarding houses, as well as the potential for a range of community housing providers in the future who may provide various forms of social housing. Some types of residential development will need to be excluded from the contribution.

11.43. The district plan defines Residential Activity to mean “the use of land and buildings by people for the purpose of permanent residential accommodation, including all associated accessory buildings, recreational activities and the keeping of domestic livestock. For the purposes of this definition, residential activity shall include Community Housing, emergency refuge accommodation and the non-commercial use of holiday homes. Excludes visitor accommodation, residential visitor accommodation and homestays”.

11.44. Possible exclusions cover the following activities which fall within the PDP definition of Residential Activity (PDP Chapter 2 - Definitions):

Small units. Residential Flats are defined in PDP Chapter 2²³ and are limited in most zones to 70m² They must stay with the residential unit they accompany (can't be subdivided off). Flats provide an affordable product.

²³ Means a residential activity that comprises a self-contained flat that is ancillary to a residential unit and meets all of the following criteria: (a) the total floor area does not exceed; i. 150m² in the Rural Zone, the Rural Lifestyle Zone, the Wakatipu Basin Rural Amenity Zone and the Hills Resort Zone; ii. 70m² in any other zone; not including in either case the floor area

Boarding houses / worker accommodation. These types of activities provide affordable rental for short term stays and seasonal workers. Neither term is defined in the District Plan. Boarding Houses are defined in Section 66B of the Residential Tenancies Act 1986. Given the lack of a certain definition and potential for change in use to permanent accommodation over time, boarding houses and the like should not be exempted.

Managed Care facilities in retirement villages. Supported residential care facilities are facilities like 'rest homes' that provide accommodation and full-time care for the aged. A rest home is defined in section 58(4) of the Health and Disability Services (Safety) Act 2001. Supported residential care units should not be included.

Affordable residential units that are sold under the government's KiwiBuild scheme, housing developments undertaken by Kāinga Ora and developments by a Registered Community Housing Provider are aimed at delivering a range of housing products, including social and affordable housing. These should be excluded, provided that there are mechanisms in place to ensure retention of affordable units.

Operational policy options 3: Standards versus discretionary assessment

11.45. Affordable housing requirements implemented by planning documents generally take two main forms:

- (a) Zone-based standards
- (b) Policy based discretionary consideration at time of consent.

11.46. Zone-based standards set out a mandatory requirement that applies to all relevant development. Key parameters are set by rules, although there is discretion to waive or reduce these requirements in specific circumstances. Being 'pre-determined', the affordable housing requirement is known in advance of development being undertaken and can be factored into feasibility assessments. The standards applied need to be well calibrated to reduce the potential for unintended consequences and to reduce uncertainty in their implementation. Changing circumstances can render the standards 'out-of-date' or not fit for purpose.

11.47. Discretionary processes provide for case-by-case determination of requirements based on guidelines (policy and assessment criteria). A discretionary assessment provides scope for the requirement to be tailored to the specific circumstances of the development, such as its location,

of any garage or carport; (b) contains no more than one kitchen facility; (c) is limited to one residential flat per residential unit; and (d) is situated on the same site and held in the same ownership as the residential unit.

type of development and feasibility. However, each case requires applications to be prepared and assessments made. Issues with a discretionary process include:

- (a) the relatively long time period required to build up understanding of the policies and their appropriate application
- (b) the need to prepare and maintain detailed needs assessments of affordable housing as an input into case-by-case assessments.

Despite these issues, there is evidence, that once policies are understood then a discretionary process can be an effective tool.

Table 10 Standards v discretionary processes

Standards versus discretionary		
Option	Costs	Benefits
Standards-based	<p>Environmental</p> <ul style="list-style-type: none"> • May see some contributions in areas where it is undesirable to locate affordable housing. <p>Economic</p> <ul style="list-style-type: none"> • Set contribution rate applies no matter if affordable housing demand is high or low. <p>Social & Cultural</p> <ul style="list-style-type: none"> • May see a standard affordable housing product delivered 	<p>Environmental</p> <ul style="list-style-type: none"> • Works in with current and future zoning frameworks <p>Economic</p> <ul style="list-style-type: none"> • Developers know requirement 'up front' <p>Social & Cultural</p> <ul style="list-style-type: none"> • Some certainty over future stream of contributions (subject to overall growth rates).

Standards versus discretionary		
Option	Costs	Benefits
Discretionary	<p>Environmental</p> <ul style="list-style-type: none"> • May see some pressure for additional development to help off-set contribution requirements <p>Economic</p> <ul style="list-style-type: none"> • Less able to gauge impact of contribution at pre-planning stage due to uncertainty over final size and form of contribution <p>Social & Cultural</p> <ul style="list-style-type: none"> • May see lower rate of contribution, on a cumulative basis, as there will be pressure to reduce contribution rate in each case considered 	<p>Environmental</p> <ul style="list-style-type: none"> • Contribution can be assessed alongside other ‘benefits’ of the development <p>Economic</p> <ul style="list-style-type: none"> • Contribution can be modified to suit specific circumstances <p>Social & Cultural</p> <ul style="list-style-type: none"> • May be better able to relate contribution to specific demands for different types of housing

Option	Efficiency	Effectiveness
Standards	More efficient	More effective
Discretionary	Less efficient	Less effective

11.48. A standards-based approach will be the more effective and efficient method, provided that there is scope to undertake site specific assessments of appropriate contribution rates via resource consent processes. A discretionary activity status for non-compliance with the proposed standard/s provides a pathway for alternatives to standards to be considered on their merits.

Policy Option 4: Contribution Form and Rate

11.49. This matter relates to what form and level of contribution is appropriate. Most affordable housing schemes set out a percentage of units that must be affordable, for example 5% or 10% of lots or units that are consented are to be affordable dwellings. Affordability is determined in relation to income criteria.

11.50. It is conceivable that rather than stipulate that a percentage of new lots or units be affordable, the district plan could require that developments deliver a range of lot and unit sizes, for example

a percentage of units be less than 70m² in floor area. This is on the basis that smaller units will be more affordable relative to larger units.

11.51. Basing the contribution on having a range of lot and/or unit sizes in a development is an indirect method of ensuring the provision of dwellings affordable for low to moderate income households. The units may not be rented or sold to low to moderate income households, while developers may balk at the risk of selling smaller units, compared to providing a monetary contribution direct to council. There is also no retention method.

11.52. The vast majority of affordable housing schemes operate on the basis of an affordable housing contribution. Rates of contribution vary considerably across the affordable housing schemes that operate in the US, UK and Australia. There is no one formula or approach. Generally, the matters taken into account cover:

- The objectives of the scheme
- Effect on feasibility of differing rates on development
- Sufficient incentive remains for landowners to sell to developers
- Greenfields versus brownfields developments
- Methods of delivery.

In all cases a realistic contribution rate is less than demand for affordable housing. In other words, the affordable housing provisions will not by themselves 'solve' the housing crises.

11.53. QLD specific factors include the Community Housing Trust taking a direct role in the provision and management of affordable housing. This means the best method for local circumstances is the transfer of land and money to the Council for onwards transmission to the Trust, rather than developers building dwelling units to be sold at an affordable price. That is, rather than seek to require the sale of lots or houses at a discounted (affordable) price to eligible buyers, which is difficult to monitor and enforce in situations of non-compliance (once private transactions have been entered into), QLDC seeks a direct contribution to the Council which can then be passed onto the Housing Trust.

11.54. For example, rather than requiring a percentage of lots be sold at an affordable prices (for example, in the case of the Queenstown case study that formed one of the development feasibility tests, \$250,000 per lot, rather than \$330,000), an equivalent contribution in money is sought. Table 1 shows the relevant data for the Queenstown case study (involving a 177-lot development)²⁴. The first row shows the situation with no contribution. The second and third rows show the two alternatives – lots sold at a discounted price, or lots transferred (gifted) to council.

²⁴ Affordable Housing Project, June 2020, Telfer Young, see Attachment 3d.

The residual block value is the quantum of money available to the developer to pay for the land, after estimated income from sales and all costs, and is the basis of the feasibility test.

Table 11: Different forms of contribution

Type of contribution	% Contribution	Residual block value	% change
Base scenario – no contribution	0%	\$ 14,176,000	0%
Lots sold at discounted price	20%	\$ 12,428,000	-12.33%
Lots transferred to council	5%	\$ 12,364,000	-12.78%

11.55. In this case, requiring 5% of lots be transferred to Council is equal to 20% of lots being sold at a discount, in terms of impact on residual block value. The Hāwea case studies show the same relationship.

11.56. Setting a contribution rate for QLD has involved assessment of a number of measures of feasibility. This includes use of MBIE on-line development feasibility assessments tool, as well as specific assessments of case study sites in Queenstown and Wanaka, covering both brownfields and greenfields sites. See the relevant technical reports for the detail of these assessments. Note: These assessments were undertaken prior to Covid 19 and are based on then current metrics as to building costs and sale values. The case studies may need to be updated prior to any Hearing of the Plan Change.

11.57. For greenfields subdivision, Figure 5 shows the effect of an increasing percentage of lots being transferred to the Council (based on the Queenstown case study). As the contribution increases the residual block land value decreases.

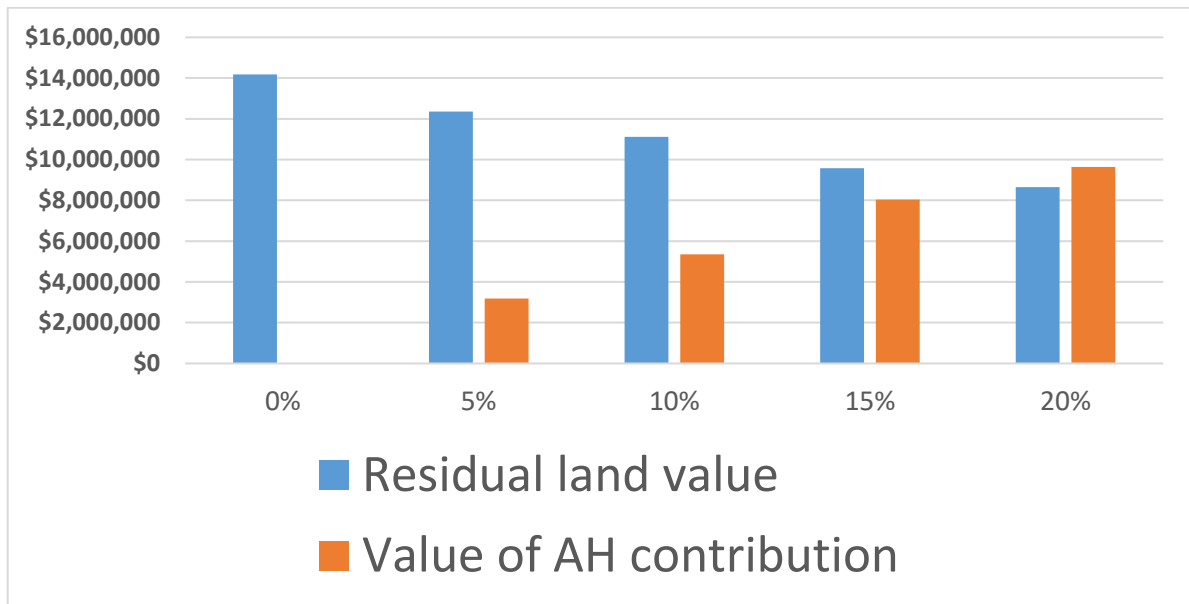


Figure 5: % of lots transferred to Council

11.58. Table 12 shows the summary of the feasibility assessment for the Queenstown and Hāwea case studies.

Table 12: Summary assessment of contribution involving transfer of lots

% of lots transferred to council	Queenstown (177 lots)		Hawea (50 lots)	
	% change in residual land value	Value of sections transferred to council	% change in residual land value	Value of sections transferred to council
5%	-12.76%	\$ 3,182,609	-10.68%	\$ 782,609
10%	-21.57%	\$ 5,347,826	-17.79%	\$ 1,304,348
15%	-32.48%	\$ 8,043,478	-28.45%	\$ 2,086,957
20%	-38.88%	\$ 9,634,783	-35.56%	\$ 2,608,696

11.59. The Queenstown case study calculates that a contribution rate of 5% of lots transferred to the Council reduces the residual land value of the development block from \$14.1m to \$12.3m. This is a 12.7% decline. With 10% of lots transferred, block land value is \$11.1m, or a 21.5% decline. In both cases, the development remains viable for the developer, provided that the 'costs' of the affordable housing requirement get passed back into land values (that is, the selling price for the land drops in proportion to the requirement).

11.60. A 10% transference of lots is likely to be seen by landowners as a significant impact on land values and may affect landowner willingness to sell. In the context of QLD where there are few alternative uses other than residential development for land close to settlements and rising land values, this may only have an interim effect on land transfers.

11.61. Having said that, negative perceptions as to impacts on the dynamics of development of affordable housing schemes are prevalent, and a cautious, modest approach is recommended. Often high rates of contribution are counterbalanced by incentives or bonuses, such as extra height or density, or faster processing of applications. The RMA constrains the ability to make these sorts of trade-offs, without triggering consent processes.

11.62. For brownfields development the most practicable contribution is money. In some larger developments like apartment buildings, land or an equivalent number of units may be transferred.

11.63. The feasibility assessments of brownfields developments indicate greater sensitivity to affordable housing requirements than greenfields, in terms of commercial feasibility. This suggests the need for a different level of contribution to that of greenfields. In simple terms, brownfields development involves both subdivision and development, with subdivision usually following development. 'Improvements' to land (such as building new houses) often make up 50 to 60% of capital value of the finished development. This means a 5% contribution of land is equal to a 2% to 2.5% contribution based on the value of the land and house.

11.64. Feasibility testing of brownfields development is based on the estimated return on outlay, as costs (land and construction) and likely sale values can be reasonably known. Using case study sites in Frankton Road and Fryer Street, the effect of an affordable housing levy on percentage profit on outlay are as follows:

Table 13: Brownfield case studies

Affordable housing levy on sale value of units	Percentage profit on outlay	
	Frankton Road	Fryer Street
0.0%	11.99%	11.65%
2.5%	8.66%	8.34%
5.0%	5.53%	5.23%
7.5%	2.57%	2.28%

11.65. The feasibility testing noted that profit on outlay should be in the range of 10 to 15% for a development to be considered viable. The above estimates suggest that a contribution rate below 2.5% is required.

11.66. The case studies involved an affordable housing levy being applied to the sale of all units, rather than the additional units built (in both case studies it was assumed that there were 2 existing units which were demolished, and 12 units built – a net increase in 10).

11.67. If the affordable housing levy is only applied to the additional dwellings, then in combination with a 2% levy, profit on outlay is 9.75%, based on the Frankton Road case study. For Fryer Street, the comparable figure is 9.42%²⁵. These figures are at the lower end of feasibility, and therefore there is a likelihood that some brownfields development may be delayed due to the contribution coming into play.

11.68. Having said that, the feasibility case studies involve a range of assumptions about development costs, size of units and sales value, all of which will vary from site to site, some of which could be adjusted once an affordable housing policy is in place.

11.69. The contribution rate should be based on the estimated sale value of the units at the time of consent, as this can be validated by external parties. However, this will require preparation of valuation reports and monitoring of sales. The alternative is the district plan setting out a set rate per square metre of floor space added which can be paid “up front” with no need for specific assessment. Table 14 explores what set rate may apply.

Table 14: Affordable housing levy

Levy (on gross realisation) plus GST basis	Total levy (additional units)	Per new unit	Per sqm of floor area added
Fryer Street			
1.0%	\$69,565	\$6,956	\$62.11
1.5%	\$104,348	\$10,434	\$93.17
2.0%	\$139,130	\$13,913	\$124.22
2.5%	\$173,913	\$17,391	\$155.28
Frankton Road			
1.0%	\$ 80,435	\$8,043	\$71.82
1.5%	\$120,652	\$12,065	\$107.73
2.0%	\$160,870	\$16,086	\$143.63
2.5%	\$201,087	\$20,108	\$179.54

11.70. On this basis a set rate of between \$125 and \$145 per square metre of floorspace added would be equal to a 2.0% levy on gross realisation of the additional units added. Recent house price data would suggest that the above range remains a reasonable estimate. See Table 15.

²⁵ Based on email correspondence with Telfer Young in June 2022, see Attachment 3f.

Table 15: Recent house values

House price band	Sale price (April 2022)	Estimated average floor area (m ²)	Sales value per sqm (less GST)	Levy at 2% of sale price (less GST)
Lower quartile	\$929,000	114	\$7,060	\$141
Median	\$1,649,000	221	\$6,477	\$130

Note: Floor area is based on building consent data. House price data is sourced from Quotable Value NZ.

11.71. A set per square metre rate of contribution incorporated into the plan will assist greatly with implementation but comes with the potential for increasing costs seeing the rate become out of date over time. Either a plan change is required to regularly update the per square metre rate, or the rate is inflated each year in accordance with an external price index. For example the formula for adjustment of the equivalent monetary contribution amount could be as follows:

$$\text{New Contribution Rate} = \text{Operative Contribution Rate} \times (\text{Index}_2 / \text{Index}_1)$$

Where:

- Index period 1 is the index value at the time of the provision becoming operative
- Index period 2 is the index value at the time when consent is granted.

11.72. As for possible indices, Statistics New Zealand run several Producer Price indices. Each quarter these are updated. One index covers building construction costs - SQUEE1100. For example, in March 2021, the index stood at 1422. By March 2022 this had increased to 1609, or an increase of 13%. In this case, the per square metre rate set in the operative plan would be increased by 13% if the subject development was granted consent a year later and March 2021 was the operative date. This index does not cover land costs and therefore addresses only one influence on house prices. However, it at least reflects an important input into the provision of new dwellings.

11.73. An alternative index would be based on changes in median rents. Increases in median rents reflect increases in housing demands and incomes. Rental data is regularly published by MBIE (such as the rental data collected by tenancy services). At this stage the proposed provisions include reference to the Producer Price construction index. The appropriate index may be matter that is addressed through submissions.

11.74. For the purposes of the proposed district plan provisions, a rate of \$150 per sqm is included in the provisions. This rate reflects the likelihood of increased costs of construction and sales values between notification and when a rule becomes operative.

Table 16: Contribution rates

Contribution Rate		
Option	Costs	Benefits
Higher rate of contribution (e.g. 10% for greenfields, 5% for brownfields)	<p>Environmental</p> <ul style="list-style-type: none"> • May see some dispersal of growth to Central Otago District and/or outlying settlements so as to avoid high requirement <p>Economic</p> <ul style="list-style-type: none"> • May see some greenfield and brownfields developments delayed or not commence due to costs <p>Social & Cultural</p> <ul style="list-style-type: none"> • May see a standard affordable housing product delivered 	<p>Environmental</p> <ul style="list-style-type: none"> • Larger contribution will mean better use of existing urban land (brownfields and greenfields) helping to slow expansion pressures if higher rate is compensated for by increased density. <p>Economic</p> <ul style="list-style-type: none"> • Greater benefits to business sector from more stable work force, district more attractive to key workers like school teachers, emergency services etc <p>Social & Cultural</p> <ul style="list-style-type: none"> • Enhanced social wellbeing from more stable and diverse communities

Contribution Rate		
Option	Costs	Benefits
Lower rate of contribution (5% for greenfields, 2% for brownfields)	<p>Environmental</p> <ul style="list-style-type: none"> • May continue to see some dispersal of lower priced growth to other areas due to affordable housing demands not being met in QLD. <p>Economic</p> <ul style="list-style-type: none"> • Helps with outcomes associated with a more stable workforce and diverse community, but meeting all affordable housing needs will require a range of non-RMA actions <p>Social & Cultural</p> <ul style="list-style-type: none"> • Does not meet all social needs 	<p>Environmental</p> <ul style="list-style-type: none"> • Some benefits in terms of better use of urban land (i.e. development helps meet a wider range of needs, reducing pressure expansion and re zonings). <p>Economic</p> <ul style="list-style-type: none"> • Less impact on feasibility and therefore less likely to adversely affect market dynamics <p>Social & Cultural</p> <ul style="list-style-type: none"> • Will enable a degree of diversification of housing products within neighbourhoods

Option	Efficiency	Effectiveness
Higher	Less efficient	More effective
Lower	More efficient	Less effective

11.75. A higher contribution rate may be more effective in meeting affordable housing needs but is more likely to see higher costs in terms of delayed or deferred development (particularly brownfields development). A lower rate of contribution is more likely to see benefits outweigh costs, even if benefits are more modest, as costs will likely be much lower.

THE RISK OF ACTING OR NOT ACTING

11.76. Section 32(c) of the RMA requires an assessment of the risk of acting or not acting if there is uncertain or insufficient information about the subject matter of the provisions.

11.77. There is a degree of uncertainty about the potential response of the subdivision and house building sector to any requirement. Evidence to date suggests that:

- There are substantial risks to the social, economic and environmental values of the district if no further action is taken. The Mayoral Taskforce on affordable housing is clear as to the need to take action.
- The 2021 Housing and Business Capacity Assessment calculates that if no specific action is taken (in addition to substantial expansion of housing capacity), the number of non-owner households facing rental stress will climb from 2,350 to 7,000 by 2050.
- There are risks with any new contribution provision, including unintended consequences and negative reactions for some parts of the development community, either delaying implementation of any provision or deferring developments once such a provision is in place.
- Experience to date with specific plan changes and Special Housing Areas show a degree of acceptance of the need for some form of contribution if the district is to continue to grow and prosper in a sustainable manner.

11.78. The establishment of the Queenstown Lakes Community Housing Trust and the associated development of home ownership packages shows that there is a vehicle in place to implement any contribution requirement and the use it has put to the land provided through SHA Deeds is evidence of the model working well.

12. CONCLUSION

12.1. Based on the analysis set out in this report and associated assessments, the Queenstown Lakes District Council has determined that district plan-based provisions relating to affordable housing will:

- (a) assist the Council to fulfil its statutory functions and responsibilities as required by the RMA.
- (b) provide a net benefit in terms of sustainable management of natural and physical resources in a way and at a rate that contribute to social, economic and environmental wellbeing of the district

- 12.2. The provisions should be based on a financial contribution model whereby the main form of contribution is a monetary contribution to Council which will be used for the express purposes of supporting the delivery of affordable housing via the Queenstown Lakes Community Housing Trust. In some cases, transfer of land (serviced lots) may be an appropriate method of compliance. Other delivery options, such as development undertaken for or by Kainga Ora, a public-owned redevelopment agency, or other registered Community Housing Provider is also possible.
- 12.3. The rate of contribution should be based on 5% of vacant lots being transferred to Council (land or monetary equivalent), or 2% of sale value of new houses for residential developments within urban environments and 1% for residential units in settlement, rural-residential, Wakatipu Basin lifestyle precincts and resort zones. This rate of contribution is based on a range of factors, including feasibility testing and taking into account a number of local contextual factors. The rate of contribution seeks to minimise any adverse impacts on the operation of the housing market and accords with local experience.

Attachment One
Proposed Provisions

Attachment Two
Statutory Plans

Attachment Three

Supporting Information

Report	Attachment / Link
Mayoral Housing Affordability Taskforce, 2017	https://www.qldc.govt.nz/your-council/major-projects/mayoral-housing-affordability-taskforce
Queenstown Lakes Spatial Plan	https://www.qldc.govt.nz/your-council/council-documents/queenstown-lakes-spatial-plan
Queenstown Lakes Homes Strategy	https://www.qldc.govt.nz/your-council/major-projects/housing-in-the-queenstown-lakes/queenstown-lakes-homes-strategy
Housing Development Capacity Assessment 2021 Queenstown Lakes District 15 September 2021 – Final	https://www.qldc.govt.nz/media/5qpcibrp/3a-attachment-a-housing-development-capacity-assessment-2021-main-report.pdf
Issues and Options Paper – Planning for Affordable Housing (Hill Young Cooper) - June 2021	Attachment 3a
Working Paper and Draft Provisions (Hill Young Cooper) – June 2021	Attachment 3b
Legal Memo – Alternative Approaches to Addressing Housing Affordability (Nick Whittington) – 7 July 2021	Attachment 3c
Valuation Report for Inclusionary Zoning (Telfer Young) – June 2020	Attachment 3d
Valuation Report for Inclusionary Zoning (Telfer Young) – March 2021	Attachment 3e
Updates to Valuation Report for Inclusionary Zoning (Telfer Young) – June 2022	Attachment 3f
Economic Assessment (Sense Partners) – July 2022	Attachment 3g

Attachment Four
Summary of pre-notification consultation